Public Notice Pursuant to A.R.S. § 38-431.02

ARIZONA MUNICIPAL WATER USERS ASSOCIATION
BOARD OF DIRECTORS

MEETING NOTICE AND AGENDA

Thursday, May 25, 2017 – 11:00 a.m.

Arizona Municipal Water Users Association
Board Conference Room
3003 North Central Avenue, Suite 1550
Phoenix, Arizona 85012

A. Call to Order

B. General Business—Items for Discussion and Possible Action
   1. Approval of the Minutes from the April 27, 2017 Meeting
   2. Schedule Next Meeting Date: Thursday, June 22, 2017, at 10:00 a.m.*
   3. 2017 Legislative Update
   4. AMWUA Financial Statements through Third Quarter Ending March 2017
   5. AMWUA Fiscal Year 2018 Draft Budget
   6. CAWCD Water Storage Tax
   7. Presentation of Paper on Reclaimed Water Issues

C. Executive Director’s Report

D. Future Agenda Items

E. Adjournment

*Please note the change in time from regularly scheduled AMWUA Board of Directors meetings.

The order of the agenda may be altered or changed by the AMWUA Board of Directors.

More information about AMWUA public meetings is available in the AMWUA office, online at www.amwua.org under the Public Meetings tab, or by request.
BOARD OF DIRECTORS
MEETING MINUTES
April 27, 2017

VOTING MEMBERS PRESENT

Councilwoman Thelda Williams, President, Phoenix
Councilmember Eddie Cook, Gilbert
Councilmember Pat Dennis, Avondale
Councilmember Lauren Kuby, Tempe
Mayor Jim Lane, Scottsdale
Councilmember René Lopez, Chandler
Councilmember Joanne Osborne, Goodyear
Councilmember Bart Turner, Glendale

VOTING MEMBERS NOT PRESENT – EXCUSED

Mayor Cathy Carlat, Peoria
Councilmember Kevin Thompson, Mesa

OTHERS PRESENT

Barry Aarons, The Aarons Co. Ron Klawitter, SRP Javier Setovich, Goodyear
Cindy Blackmore, Avondale Elisa Klein, Scottsdale Richard Siegel, SRP
Eric Braun, Gilbert Pat Kossan, AMWUA Tony Staffaroni, CAP
Gregg Capps, Chandler Christa McJunkin, SRP Drew Swieczkowski, Glendale
Alan Dulaney, Peoria James Orloski, Phoenix Mark Taylor, CAP Board Member
Kathy Ferris, AMWUA Legal Brian Payne, AMWUA Warren Tenney, AMWUA
Brett Fleck, AMWUA Jessica Perry, Goodyear Carol Ward-Morris, AMWUA
Sara Gerlitz, Phoenix Diana Piña, AMWUA Thalia Williams, AMWUA
Mark Holmes, Goodyear John Riggins, ADWR
Lacey James, Avondale Don Sehorn, DPS CPA

1. CALL TO ORDER

Councilwoman Williams called the meeting to order at 11:10 a.m.

2. APPROVAL OF MINUTES FROM THE MARCH 23, 2017 MEETING

Upon a motion by Mayor Lane and a second by Councilmember Turner, the AMWUA Board of Directors unanimously approved the minutes from the March 23, 2017 meeting.
3. **SET NEXT MEETING DATE**

   The next regular meeting of the AMWUA Board of Directors was scheduled for Thursday, May 25, 2017, at 11:00 a.m., at the AMWUA office.

4. **2017 LEGISLATIVE UPDATE**

   Mr. Tenney reported that activity at the Legislature has been slow since the focus is on the budget; however, he had an update on the status of two bills - HB 2482 and Striker 1309.

   HB 2482 would exempt a subdivider from having to obtain a Certificate of Assured Water Supply if the subdivider uses a previously issued certificate. Mr. Tenney said the Arizona Department of Water Resources (ADWR) had been concerned about this bill and the AMWUA Board of Directors opposed it. Since the AMWUA Board of Directors’ vote to oppose, ADWR worked with the sponsor to reach agreement on an amendment. He stated that the amendment allows a new subdivider to rely on a previously issued certificate if certain conditions are met, as determined by the relevant platting entity. The ADWR amendment was approved and the bill passed unanimously from the Senate; it is now in the House. Mr. Tenney noted that at their April 12, 2017 meeting, the AMWUA Management Board unanimously approved recommending to the AMWUA Board of Directors that AMWUA change its position on HB 2482 from oppose to monitor, should the ADWR recommended amendment be adopted, which it did. The AMWUA Board of Directors did not take a formal action.

   Striker 1309 would prevent the Director of ADWR from adopting or implementing any rule in the Pinal Active Management Area (AMA) that would reduce the amount of credits for the extinguishment of irrigation grandfathered rights. Mr. Tenney said the ADWR Director needs this authority to reduce the quantity of credits to prevent over pumping groundwater in the Pinal AMA. He noted that SB 1309 has been moving through the House, so AMWUA sent a letter to the Speaker earlier this week expressing its opposition. Other organizations in the water community have sent similar letters. He also said the Arizona Republic issued an editorial explaining that this legislation should be opposed to avoid weakening the Groundwater Management Act.

   Mr. Aarons reiterated that budget conversations are continuing. He also noted that Yavapai Representatives are concerned about SB 1309, which gives the opposition more credibility because it’s not just coming from Maricopa County. He does not think that there will be enough votes for this bill to pass. Regarding HB 2482, Mr. Aarons said he worked very closely with Senator Warren Petersen and he could be a good ally in the future.

   The order of the agenda was altered.
7. **UTILIZATION OF CAWCD TAXES FOR FEDERAL REPAYMENT**

Mr. Tenney recognized Mr. Mark Taylor from the CAP Board in the audience, and thanked him for attending the AMWUA Board of Directors meeting.

Mr. Tenney noted that this presentation, and the CAWCD Water Storage Tax presentation, if time allows, are intended to help prepare the AMWUA Board of Directors for upcoming discussions following the Central Arizona Water Conservation District’s (CAWCD) 2018 rate setting processes. He stated that this presentation by Brett Fleck would provide a review on the utilization of CAWCD taxes for federal repayment.

Mr. Fleck stated that CAWCD owes the federal government $1.646 billion, ($2.681 billion with interest), for the Central Arizona Project (CAP) canal system. Through January 2016, $1.270 billion has been paid by three sources: 49% from the Lower Colorado River Basin Development Fund; 35% from Capital Charges, which are only paid by M&I subcontractors; and 16% from property taxes/strategic reserves. He said $1.337 billion, interest included, is still owed to the federal government.

Mr. Fleck noted that the CAWCD Board addressed the federal repayment structural deficit with dramatic increases to the Capital Charge in June 2016, and in November 2016, CAWCD staff highlighted the CAWCD Board’s June rate vote as direction to no longer consider property taxes for repayment. He said in February 2017 at the CAWCD Power Task Force meeting, CAWCD staff suggested a scenario where Capital Charges cover all of the roughly $12 million in lost annual revenue from the Navajo Generating Stations’ (NGS) closure.

Mr. Fleck stated there are several reasons to utilize property taxes to support federal debt repayment: federal intentions expressed through NGS sizing and the Master Repayment Contract; state intentions expressed through state statute and the 4-cent Water Storage Tax; and economic efficiency grounds, including indirect beneficiaries contributing.

Federal repayment will be impacted by NGS’ closure because surplus revenue will no longer be generated to put into the Lower Colorado River Basin Development Fund (BDF). Mr. Fleck said the net effect of lost NGS revenue in 2020 could be replaced with Capital Charges as well as with property taxes, so it is important for AMWUA and its members to look into options in order to best advocate for their ratepayers. He then gave several examples of the impact of shifting the relative cost burden from variable pumping energy rates to fixed Capital Charge in different scenarios.

Councilmember Lopez asked what the disadvantage would be to using 100% capital charges or 100% property taxes to replace the lost NGS revenue. Mr. Fleck said that would be a further discussion because there are different consequences. He continued that the idea is to have this conversation because only one side of the spectrum is currently being shown to the CAWCD Board.
Mayor Lane asked if property owners would be made aware of an increase to their property taxes. Mr. Fleck explained that the 4-cent and 10-cent property taxes are both currently assessed at their maximum amount, so the taxpayer will not see a difference in their tax payment, but it would effect how the property taxes are allocated.

Councilmember Dennis asked if the CAWCD Board did not want to utilize property taxes any longer. Mr. Fleck replied that the CAWCD Board was looking to cut out the use of property taxes as a funding source and rely on other sources for the federal repayment. She then asked what those property taxes would be used for, and he said property taxes are currently all allocated for non-repayment uses including replenishing the reserves that were used for repayment in the past. Ms. Ferris commented that property taxes have also been used to help pay down the cost of water to agricultural CAP users.

Councilmember Osborne asked for clarification on strategic reserves. Mr. Fleck stated that property taxes have not been used for repayment directly. He said the idea is that if there was a repayment shortfall between Capital Charges and the BDF, strategic reserves would make up the difference. He also said CAWCD is planning to re-examine its use priorities for its property taxes, so it is important for AMWUA to advocate that direct federal repayment should be on the table because it is not currently.

Mayor Lane and Mr. Fleck discussed the difficulty of explaining these taxes to ratepayers and the importance of advocating for the best allocation for ratepayers.

Mr. Fleck noted alternate viewpoints that have been expressed by some CAWCD Board members and staff:

- Only those receiving CAP water should pay for federal repayment; however, beneficiaries of CAP are both direct and indirect.
- The use of a scarce resource should not be subsidized; the important distinction is that it is better to encourage the use of renewable water over groundwater.
- Property taxes have already supported repayment by over $200 million; however, with half of the debt remaining, tax should continue to provide support, as intended.
- All tax revenues are currently allocated; however, the CAWCD Board can easily alter tax allocations as conditions change, as they did in June 2016.

Mr. Fleck concluded that this presentation was shared to lay the foundation for justifying the continued use of property tax use for repayment; to encourage CAWCD to discuss and consider repayment scenarios that include tax support; and to encourage the CAWCD Board to take a strategic look at best and intended use for property taxes.

Councilmember Kuby asked if there would be an opportunity for AMWUA to share this presentation with the CAP Board. Mr. Tenney said AMWUA shared this presentation with its Management Board, Board of Directors, and Water Resources Advisory Group (WRAG) to ensure that AMWUA is speaking on this issue with one voice.

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Mr. Tenney emphasized the importance of AMWUA speaking with one voice to advocate for the highest benefit for its ratepayers.

Mr. Tenney stated that at their April 12, 2017 meeting, the AMWUA Management Board unanimously voted to approve recommending that the AMWUA Board of Directors take the position that AMWUA should advocate for CAP property taxes to continue to be used to support CAP’s federal debt repayment.

Upon a motion by Councilmember Dennis and a second by Councilmember Osborne, the AMWUA Board of Directors unanimously voted to take the position that AMWUA should advocate for CAP property taxes to continue to be used to support CAP’s federal debt repayment.

5. ISSUES BETWEEN ADWR AND CAWCD AND POTENTIAL IMPACT TO AMWUA MEMBERS

Mr. Tenney stated that ADWR and CAWCD both play critical roles in Arizona, especially in regards to our allocations of Colorado River Water. ADWR, with support from CAWCD, has worked with California, Nevada, and the Bureau of Reclamation to develop the Drought Contingency Plan (DCP) in an effort to minimize the impact of shortage to the Colorado River. He said ADWR is hoping to present a new DCP Plus, an internal plan for how DCP would work in Arizona, next month. He said as with anything related to water, negotiating a new plan takes time and differences of opinions occur.

Mr. Tenney noted that earlier this year, in the midst of differing opinions on Colorado River issues, ADWR learned that CAWCD was defending itself against a Family Medical Leave Act (FMLA) lawsuit in the 9th circuit. In that case, CAWCD was claiming “sovereign immunity” as part of its defense. He said ADWR filed an amicus brief questioning CAWCD’s claim for sovereign immunity and clarifying that ADWR holds the lead role in Arizona on Colorado River issues. In response, CAWCD said the sovereign immunity claim specifically dealt with this FMLA case and they did not intend it to have any effect on contracts. Mr. Tenney said ADWR and the Governor’s Office had a different legal opinion and the sentiment of the water community, including the WRAG’s, is that it is important that ADWR put its position in the amicus brief to avoid any type of precedent being set that could affect Arizona and our Colorado River water in the future.

Mr. Tenney reported that AMWUA recently learned that CAWCD filed a counterclaim to a lawsuit by the Ak-Chin Indian Community. That case tries to resolve a long-standing debate about the amount of CAP water that CAWCD must deliver to the Ak-Chin Community pursuant to their contract. He said AMWUA became concerned that in their counterclaim, CAWCD asserted sovereign immunity as a potential defense, raising broad implications for any other entity with a water delivery agreement with CAWCD. Mr. Tenney stated that CAWCD’s claim of sovereign immunity has implications for AMWUA members’ M&I subcontracts, so it was important to update the AMWUA Board of Directors meeting agenda to discuss this issue. He said AMWUA drafted a letter for the AMWUA Board of
Directors to review that expresses AMWUA’s concerns about CAWCD’s claim and the confusion in turn being created by CAWCD’s conflicting statements and actions that are not building trust with its stakeholders.

Mr. Tenney stated late yesterday, AMWUA received a copy of a letter CAWCD had sent to ADWR and the Governor’s Office stating that they would amend the language in the Ak-Chin case to clarify that they are not asserting the defense of its own sovereign immunity. He said the letter also states that CAWCD has no intent to use the sovereign immunity defense in the Ak-Chin case or other matters concerning their contracts and subcontracts. Mr. Tenney stated that although this is a positive development, it is still important to express concern about the confusion created by CAWCD’s claim for sovereign immunity and the letter was rewritten to express this information.

Mayor Lane expressed that he was in agreement with sending the letter to CAWCD and Councilwoman Williams echoed his sentiments. Councilwoman Williams also stated that she would like to recommend the AMWUA Board of Directors direct Ms. Ferris to find options and resolution to this situation.

Several Board members noted concern for CAWCD asserting sovereign immunity and the precedent that those actions set.

Councilmember Dennis asked why CAWCD feels that they have the authority to claim sovereign immunity. Ms. Ferris explained that there is a dispute on whether CAWCD has sovereign immunity, which triggered ADWR to file the amicus brief in the 9th circuit to assert their disagreement. She noted that her legal opinion is that CAWCD does not have sovereign immunity.

Ms. Ferris said because the FMLA case is pending and the 9th Circuit has not yet ruled, so it has potential outcomes. In the meantime, CAWCD asserted sovereign immunity again in the Ak-Chin case, raising red flags that this pattern would continue. She stated that in CAWCD’s letter to the Governor’s Office and ADWR, they say that they do not intend to insert sovereign immunity in contract disputes, but those are words, not actions.

Mayor Lane said he thought the letter should be stronger. Ms. Ferris suggested making it clear that while AMWUA appreciates the fact that CAWCD said it would not assert sovereign immunity, it is important that CAWCD does not assert the claim again and that AMWUA does not believe that they should be asserting sovereign immunity in any case. She also said the letter could state that CAWCD’s assertion detracts from the ability of the state of Arizona, through ADWR and the Governor’s Office, to speak with one voice on Colorado River water issues.

The Board members discussed agreement with Ms. Ferris’ suggested verbiage of the letter.
Upon a motion by Mayor Lane and a second by Councilmember Dennis, the AMWUA Board of Directors unanimously voted to send the letter as amended to the CAWCD Board members urging the CAWCD to refrain from asserting it has “sovereign immunity” in any matter relating to Colorado River issues.

Councilwoman Williams added that Ms. Ferris will search for options for AMWUA to help the State resolve this problem and that AMWUA fully supports the State.

6. **CAWCD WATER STORAGE TAX**

This item was tabled.

8. **AMWUA FISCAL YEAR 2018 PRELIMINARY DRAFT BUDGET**

AMWUA has developed a preliminary draft budget for FY18 based on its Strategic Plan and recently approved Annual Action Plan. Mr. Tenney noted that the draft budget is almost $4,000 less than the current FY17 budget. He also pointed out that the budget includes a comment section to explain any line item that has an increase or decrease from the previous year. This preliminary draft budget was presented to the AMWUA Management Board at their April 12, 2017 meeting and they had no comments or questions.

Mr. Tenney offered to answer any questions and welcomed feedback. He said the budget with the AMWUA Board of Directors’ comments would be brought back to the AMWUA Management Board for recommendation in May, and that would then be brought to the AMWUA Board of Directors for consideration at their May meeting.

Councilmember Osborne noted that she did not see a line item for the Environmental Protect Agency’s (EPA) WaterSense Program lobbying effort in the budget. Mr. Tenney replied that the funding for that effort came from this year’s (FY17) budget, under the Regional Conservation Program.

Councilwoman Williams thanked Mr. Tenney for his work on the budget and appreciated the explanations for any line item with a change in budgeted amount.

9. **EXECUTIVE DIRECTOR’S REPORT**

Mr. Tenney reported that a letter expressing nationwide support for the EPA WaterSense program was sent to EPA Administrator Pruitt last week. Ms. Ward-Morris, AMWUA Assistant Director, worked diligently to ensure Arizona was well represented as signatories to the letter and also reached out to colleagues across the Colorado River Basin. Mr. Tenney said 28 organizations from Arizona signed on to the letter.

Mr. Tenney stated that AMWUA held its first Finance Group meeting on April 25th, which brought together the members’ finance staffs to discuss issues impacting their utility’s
budget and to provide a forum for comparing notes about rates, budgets, financing capital projects, amongst others. Mr. Fleck gave his presentation about CAWCD’s long-range financial considerations, which was updated from the presentation shared with the AMWUA Board of Directors. Mr. Tenney reported that AMWUA received positive feedback from the Finance Group, including that they would like to meet again in the summer and saw the potential that could come from AMWUA providing this forum for exchanging information and networking.

Mr. Tenney said the wet winter was positive, but it is recognized that the DCP among the Lower Basin States still needs to be pursued and, in turn, an internal plan for how Arizona would move forward with DCP needs to be developed. He reported that CAWCD staff met with AMWUA’s WRAG last week and they said they wanted to work to improve relationships with the AMWUA cities. CAWCD also talked about how a plan for Arizona and the Colorado River needs to consider how best to balance releases between Lake Powell and Lake Mead to avoid a shortage declaration. Mr. Tenney said the WRAG raised questions for CAWCD staff and overall had a meaningful discussion.

Mr. Tom Buschatzke, ADWR Director, met with the WRAG on Monday and explained that ADWR is working on an internal plan for Arizona that would be a combination of targeting higher elevations in Lake Mead as a buffer with a reduced probability for shortage. Mr. Tenney said Mr. Buschatzke agrees that the plan needs to be adaptable and reduce risks as much as possible. He added that Mr. Buschatzke hopes to present the full plan to the Colorado River Advisory Council in May, which Mr. Tenney participates on. AMWUA appreciates that both ADWR and CAWCD have reached out and want to have dialogue with and receive feedback from our members.

The annual AZ Water Conference is being held next week at the Phoenix Convention Center. Mr. Tenney said this conference is a great opportunity for over 1,000 water professionals throughout the state to meet and talk about water issues.

Councilmember Osborne commented that the National League of Cities said EPA is accepting comments on Waters of the U.S. and regulatory reform, which may be an opportunity that AMWUA should look into deeper. Mr. Tenney agreed and said he would get the information out to AMWUA’s members.

10. FUTURE AGENDA ITEMS

There were no requests for future agenda items.

11. ADJOURNMENT

Councilwoman Williams adjourned the meeting at 12:27 p.m.
2017 Legislative Update

STRATEGIC PLAN REFERENCE

Objectives – Advocate for Solutions; Reinforce Groundwater Management Collaboration – Legislature Operational Principles – Excel as an Expert and Resource

SUMMARY

The 2017 legislative session avoided any major water legislation directly impacting AMWUA members. Yet, AMWUA actively worked to increase its presence at the Legislature and to be a knowledgeable resource on water issues. In February, AMWUA organized a water reception for Legislators with Jon Kyl and a viewing of the film *Groundwater: To Enact a Law for the Common Good*. The reception was well attended and received.

State Budget: The approved State budget includes $15.9 million for the Arizona Department of Water Resources (ADWR), which is an increase from last year. ADWR is the only state agency to receive an increase. ADWR’s budget includes funding to hire ten new full-time employees, which would increase the agency’s staff to 139 employees. The intent behind this increase is to use some of the new positions to refocus on ADWR’s AMA programs. Also in the budget is $2 million each year for three years to help with efforts to protect Lake Mead. As part of the budget, ADWR received a $1.2 million transfer from the Arizona Water Banking Authority, which will be used to help fund the agency and its programs, including $250,000 for the Water Protection Fund for the issuance of grants. The budget also includes transfers from the Arizona Water Banking Authority of $200,000 for the Arizona Navigable Stream Adjudication Commission, and $200,000 for the Auditor General to conduct an audit of the Central Arizona Water Conservation District.

AMWUA played a role in the success, amendment or opposition of the following bills:

**HB 2010**: Arizona State Retirement System (Ugenti-Rita). *AMWUA Position: Oppose*

AMWUA helped to hold off once again a bill that tries to prevent entities such as AMWUA from providing Arizona State Retirement System benefits to employees hired after the bill’s effective date. AMWUA signed a letter expressing opposition from multiple organizations who would be
impacted by the bill. This bill passed out of the House Committee of the Whole, but was never brought for a vote to the full House.

**HB 2112:** Multi-County Water Districts Board of Directors (Finchem and 8 others). *AMWUA Position: Monitor*

This bill would have changed the requirements for a person to serve on the board of directors for multi-county water districts such as the Central Arizona Project (CAP). AMWUA opposed the original bill because it introduced partisan politics into the CAP Board election by requiring candidates for the CAP Board to have their party designation denoted on the ballot. In the Senate, this partisan requirement was removed, and thereafter the bill only restricted a CAP employee or the spouse of a CAP employee from serving on the Board of Directors. This bill was signed by Governor Ducey on May 10th.

**HB 2143:** Public Contracts (Leach and seven others). *AMWUA Position: Oppose*

AMWUA joined municipalities and counties in expressing opposition to this bill that would have set new requirements on municipalities for obtaining public bids, including for water and sewer projects. It would have required advertising for bids if the work exceeded $25,000, including materials and equipment. The bill failed to move out of committee.

**HB 2179:** Municipal Intergovernmental Agreements (Ugenti-Rita). *AMWUA Position: Oppose*

This bill that would have required a city, town, or county to limit the duration of intergovernmental agreements (IGAs) to eight years, to extend agreements by reviewing them in a public hearing, and to review and reaffirm in a public hearing all agreements already in place as of the effective date of the bill. AMWUA voiced opposition to this bill because it would create uncertainty about Arizona’s long-term water supplies including the 100-year supply designations. Each AMWUA city holds long-term contracts for CAP water. Furthermore, many of the AMWUA cities are parties to long-term leases to receive water held by another entity. The sponsor tried to modify the bill based on stakeholder concerns, but the bill stalled in the House.

**HB 2499:** Facilities Relocation; Public Utility Easements (Weninger). *AMWUA Position: Monitor*

This bill would have required a municipality or county to reimburse a utility if the municipality or county required movement of facilities constructed within a public utility easement. The affected utility would be entitled to reimbursement, unless an existing agreement provides otherwise. While the bill passed out of the House Commerce Committee, it was held in the Rules Committee. Staff understands that it was agreed that the bill should be worked on during the summer to better define its purpose and how reimbursement of costs would occur.
HB 2482: Subdivider Public Reports (Petersen).  *AMWUA Position: Monitor*

AMWUA originally opposed this striker bill because it would have allowed a subsequent subdivider to use a previously issued certificate of assured water supply. This meant a subsequent subdivider could rely on a certificate of a 100-year assured water supply even if the underlying water supply was not transferred to the subsequent subdivider of the land. Based on ADWR’s and AMWUA’s concerns, ADWR was able to work with the sponsor to develop an amendment that would allow for a subsequent subdivider to rely on a previously issued certificate if the relevant platting entity determines that certain conditions are met. Among other things, this includes a requirement that there are no changes to the plat, water infrastructure is available to each lot, and each lot is enrolled as a Central Arizona Groundwater Replenishment District (CAGRD) member land. As a result of this amendment, AMWUA changed its position to monitor. This bill was signed by the Governor on May 10th.

HJR 2002: Colorado River Forbearance Authority (Barton and 14 others).  *AMWUA Position: Support*

Along with the rest of the water community, AMWUA supported this joint resolution to authorize the ADWR Director to enter into forbearance agreements that implement the terms of the proposed minute agreement with Mexico. The Joint Resolution gives the Director authority to forebear water pursuant to these agreements, if the United States and Mexico enter into a minute agreement in which Mexico agrees to reduce its deliveries of Colorado River water in the same years that deliveries of Colorado River water to Arizona are reduced due to shortage. The authority to enter into any agreement expires on December 31, 2017. The resolution passed the House and Senate and was signed by Governor Ducey on March 2nd.

SB 1309: Groundwater Extinguishment Credits in the Pinal AMA (Barton).  *AMWUA Position: Oppose*

This striker bill would have prevented the Director of ADWR from adopting or implementing any rule in the Pinal Active Management Area (AMA) that would reduce the amount or quantity of credits for the extinguishment of irrigation grandfathered rights to less than the full amount of the right. This bill would have increased groundwater mining in the Pinal AMA. AMWUA opposed an identical version of this bill last legislative session. AMWUA sent a letter to the House Speaker asking that he hold the bill. This bill ultimately failed to move to a vote in the House.

SB 1412: Sequence of Claims in General Stream Adjudication (Griffin).  *AMWUA Position: Monitor*

This bill outlines the sequence of claims that the Superior Court over the General Stream Adjudication must address. In its amended form, the bill requires the determination of water rights of all small water use claims in any specific subwatershed to be deferred until all other claims are determined by the Superior Court. The bill furthermore requires the determination
of any claimant's small water use claim to be in conjunction with the claimant's other claims in the same subwatershed. The bill states that the Superior Court overseeing the Adjudication is not precluded from approving settlements of small water use claims at any time. The Governor signed this bill on April 24th.

RECOMMENDATION

The AMWUA Board of Directors is requested to discuss these bills and the general outcome of the legislative session.
Other AMWUA-related Legislation

The following were bills that AMWUA also monitored or took positions on.

**HB 2020**: Board of Directors and Appropriations (Lawrence). *AMWUA Position: Monitor*

This bill would have added a new clause to the conflict of interest statute that would have kept AMWUA Board members from being able to participate in city council votes appropriating money to AMWUA. This bill was assigned to the House Government Committee, but failed to move.

**HB 2036**: Groundwater Permits Technical Correction (Thorpe). *AMWUA Position: Monitor*

This bill made two minor technical corrections to a statute dealing with permits to withdraw poor quality groundwater. AMWUA staff monitored this bill because it appeared to be a possible vehicle for a striker bill. The rules in the House of Representatives for this year’s session required that all striker amendments be germane to the subject matter of the original bill. This bill failed to move.

**HB 2130**: Maximum Daily Load Program Report (Bowers). *AMWUA Position: Monitor*

The Maximum Daily Load program is administered by the Arizona Department of Environmental Quality (ADEQ) to help impaired lakes and streams meet water quality standards for their intended uses. The program applies to impaired waters listed by the State in accordance with the federal Clean Water Act. Under the program, ADEQ submits a list of waters and a schedule to establish the total maximum daily load (i.e. amount of pollutant) every two years to the EPA. This bill would have required ADEQ to submit a report to the Governor, House Speaker, and Senate President detailing progress under the program by September 1st of each year. This bill passed out of the relevant House committees, but failed to move further.

**HB 2193**: Groundwater Resource Management Task Force (Cobb). *AMWUA Position: Monitor*

This bill would have created a task force comprising members of the Legislature and several representatives of different stakeholder groups. The task force would establish a framework for a property development credit program to encourage the donation, acquisition and use of land for conservation areas that would support the maintenance of groundwater and other ecological resources. Under this concept, a party could receive development credits to offset water use and development impacts on private developable land in exchange for donating or transferring property for conservation areas. These credits could be purchased and sold to different parties. The task force would submit a report to the Governor and Legislature by the end of 2017. AMWUA staff understands that this bill arose out of concerns from some individuals in Mohave County. This bill failed to move this session. However, AMWUA staff understands that an ad-hoc committee may look into this issue in the future.
HB 2330: Water Augmentation Systems (Campbell and two others). AMWUA Position: Support

This bill introduced a proposed tax credit for the installation of a “Residential Water Augmentation System,” which is defined as either a rainwater harvesting system or a residential graywater system. The proposed tax credit was equal to 25 percent of the cost of the system up to a maximum of $1,000. The tax credit would have been available through January 1, 2026. The bill limited the annual amount for the tax credit that the state could allow to $250,000. A similar tax credit for graywater systems was in place for tax years 2007 through 2011, although some have questioned how effective it was at incentivizing graywater use. This bill passed out of the House Ways and Means Committee, but failed to move thereafter.

HB 2231: Desalination Study Committee (Shooter). AMWUA Position: Monitor

This bill would have established a nine-member desalination study committee comprising members of the Legislature and subject matter experts. The committee would collect information on desalination within Arizona, review data from desalting plants in operation, and study opportunities for desalination projects in Arizona. This bill failed to move this session.

HB 2317: CAP Board and Partisan Offices (Lawrence). AMWUA Position: Oppose

This bill would have required that ballots include party designations listed alongside candidates for several elected offices, including elections for the CAP Board. Currently, elections for the CAP Board are non-partisan and take place only in a general election. This bill would have required CAP Board elections to take place in both a primary and general election with each candidate’s party designation listed on the ballot. AMWUA believes CAP elections should remain non-partisan because of the importance of water being a non-partisan issue. The bill failed to move this session.

SB 1124: Arizona Water Protection Fund Appropriation (Griffin). AMWUA Position: Support

This bill as amended appropriated $500,000 for fiscal year 2018 from the state general fund for the Arizona Water Protection Fund. The Arizona Water Protection Fund is a state-run program that funds projects to protect and enhance water quality and quantity in Arizona’s rivers, streams, and riparian areas. Some of these efforts include revegetation, erosion control, channel stabilization, research, and water conservation. This bill passed through the Senate and the relevant House committees, but was not voted on by the full House.

SB 1165: Capital Costs and Exempt Wells (Fann and Campbell). AMWUA Position: Support

Under relevant provisions of the Groundwater Code, a landowner in an Active Management Area may drill a small exempt well for domestic uses. However, under the Code an exempt well may not be drilled if any part of the land is within one hundred feet of a designated municipal provider’s system. One exception to this rule is if a landowner shows that it is more economical to drill an exempt well than connect to the municipal drinking water system.
This bill would have added to this exception the requirement that a landowner provide to ADWR at least three estimates of the total capital costs for the drilling of an exempt well. This bill failed to move this session, and AMWUA staff understands that stakeholders may convene to work on this issue before next session.

SB 1184: Appropriation to Arizona Geological Survey (Griffin). AMWUA Recommended Position: Monitor

This bill appropriated $941,000 from the General Fund to the Arizona Geological Survey (AGS) for fiscal year 2018. The AGS collects, records, maintains and makes available old and new data on the geologic materials and processes in Arizona. This includes data that is vital to understanding groundwater pumping issues, subsidence, and water quality issues in Arizona. This bill was signed by the Governor on May 8th.

SB 1280: Groundwater Extinguishment Credits in the Pinal AMA (Smith and four others).
AMWUA Position: Oppose

This bill would have prevented the Director of ADWR from adopting or implementing any rule in the Pinal AMA that would reduce the amount or quantity of credits for the extinguishment of irrigation grandfathered rights to less than the full amount of the right. The bill would have been retroactive. This bill would have increased groundwater mining in the Pinal AMA. AMWUA opposed an identical version of this bill last legislative session. This bill failed in the Senate Natural Resources, Energy and Water Committee on February 13th. It contained the same language as a striker bill listed above, SB 1309, which also failed.

SJR 1001: Colorado River Joint Resolution (Griffin). AMWUA Recommended Position: Monitor

This Senate Joint Resolution recognized that 2017 was the 95th anniversary of the 1922 Colorado River Compact, which is one of the primary documents that governs the Law of the River. This resolution was meant to be a placeholder for approving Arizona’s participation in the Drought Contingency Plan (DCP), if agreement was reached for how DCP would be implemented in Arizona. For several reasons, that did not occur during this legislative session.
AMWUA Financial Statements Through Third Quarter Ending March 2017

STRATEGIC PLAN REFERENCE

Operational Principles – Manage an Efficient and Effective Association

SUMMARY

The AMWUA Statement of Revenues and Expenses for the period July 1, 2016 through March 31, 2017, and the Balance Sheet dated March 31, 2017 are presented for your information.

At the end of the third quarter, AMWUA is showing a year-to-date actual of $81,852 less than the year-to-date budget. This is primarily due to the timing of when the actual expenditures will occur as not all expenditures are made evenly throughout the fiscal year but are expected to be spent by fiscal year end.

As indicated in the Preliminary Budget that was presented in April, AMWUA anticipates that it will complete this fiscal year under budget by approximately $13,871.

RECOMMENDATION

Staff proposes that the AMWUA Board of Directors accept the AMWUA Management Board’s recommendation from their May 10, 2017 meeting to approve the AMWUA financial statements through third quarter ending March 2017.

ATTACHMENTS

- Attachment A: Statement of Revenues and Expenses
- Attachment B: Balance Sheet
### ARIZONA MUNICIPAL WATER USERS ASSOCIATION

**Statement of Revenues and Expenses**

(Actual to Budget Comparison)

For Period July 1, 2016 through March 31, 2017

<table>
<thead>
<tr>
<th>Funding Sources</th>
<th>Actual</th>
<th>Budget</th>
<th>Over(Under) Year-To-Date</th>
<th>Variances Year-To-Date</th>
<th>Approved Annual</th>
</tr>
</thead>
<tbody>
<tr>
<td>Assessment - Water</td>
<td>1,096,119.99</td>
<td>1,096,119.99</td>
<td>0.00</td>
<td>0.00</td>
<td>1,096,119.00</td>
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<tr>
<td>Assessment - Wastewater</td>
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<td>198,806.00</td>
<td>0.00</td>
<td>0.00</td>
<td>198,806.00</td>
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<tr>
<td>2016 Carryover Applied (Website Development)</td>
<td>25,000.00</td>
<td>25,000.00</td>
<td>0.00</td>
<td>0.00</td>
<td>25,000.00</td>
</tr>
<tr>
<td>2016 Carryover Applied to Reduce Member Assessments</td>
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<td>34,211.00</td>
<td>0.00</td>
<td>0.00</td>
<td>34,211.00</td>
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<tr>
<td>Interest Revenues</td>
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<td>0.00</td>
<td>3,664.41</td>
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<td>0.00</td>
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<tr>
<td>Other Revenues</td>
<td>347.14</td>
<td>0.00</td>
<td>347.14</td>
<td>0.00</td>
<td>0.00</td>
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<tr>
<td><strong>Net Revenues</strong></td>
<td>1,358,148.54</td>
<td>1,354,137.99</td>
<td><strong>4,011.55</strong></td>
<td><strong>34,211.00</strong></td>
<td><strong>1,354,136.00</strong></td>
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</tbody>
</table>

### Operating Expenses

<table>
<thead>
<tr>
<th>Category</th>
<th>Actual</th>
<th>Budget</th>
<th>Over(Under) Year-To-Date</th>
<th>Variances Year-To-Date</th>
<th>Approved Annual</th>
</tr>
</thead>
<tbody>
<tr>
<td>Payroll (Salaries)</td>
<td>415,815.66</td>
<td>421,519.50</td>
<td>(5,703.84)</td>
<td>562,026.00</td>
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<td>Deferred Compensation (ASRS Payments)</td>
<td>49,740.37</td>
<td>50,959.50</td>
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<tr>
<td>Payroll Processing, Taxes and Insurance</td>
<td>37,714.35</td>
<td>38,767.50</td>
<td>(1,053.15)</td>
<td>51,690.00</td>
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<td>Medical and Disability Insurance</td>
<td>49,468.47</td>
<td>51,750.00</td>
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<td>Cell Phone Allowance</td>
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<td>2,340.00</td>
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<td>Temporary Services/Receptionist</td>
<td>9,530.85</td>
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<td>Legal/Consulting Services (Ferris Contract)</td>
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<td>45,000.00</td>
<td>0.00</td>
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<td>Legislative Services (Aarons Company-Contract)</td>
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<td>31,500.00</td>
<td>0.00</td>
<td>42,000.00</td>
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<tr>
<td>Audit - Water</td>
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<td>8,200.00</td>
<td>0.00</td>
<td>8,200.00</td>
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<td>Audit - Waste Water</td>
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<td>21,300.00</td>
<td>0.00</td>
<td>21,300.00</td>
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<tr>
<td>Website Services (Cook Internet Consulting Contract)</td>
<td>10,060.50</td>
<td>10,060.50</td>
<td>0.00</td>
<td>5,000.00</td>
<td></td>
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<tr>
<td>Communication Services (Kossan Contract)</td>
<td>29,999.97</td>
<td>29,999.97</td>
<td>0.00</td>
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<tr>
<td>Consultant-Finance/Accounting</td>
<td>27,500.00</td>
<td>18,750.00</td>
<td>8,750.00</td>
<td>25,000.00</td>
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<tr>
<td>Office Space - Lease</td>
<td>27,399.99</td>
<td>30,600.00</td>
<td>(3,200.01)</td>
<td>40,800.00</td>
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<td>Common Area Maintenance</td>
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<td>129,055.50</td>
<td>(0.18)</td>
<td>172,074.00</td>
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<tr>
<td>Telephone</td>
<td>5,322.64</td>
<td>7,500.00</td>
<td>(2,177.36)</td>
<td>8,500.00</td>
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<tr>
<td>E-Mail/Webpage/Internet</td>
<td>2,733.30</td>
<td>3,150.00</td>
<td>(416.70)</td>
<td>4,200.00</td>
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<tr>
<td>Travel/Conferences</td>
<td>6,914.64</td>
<td>6,375.00</td>
<td>539.64</td>
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<td>Milage Reimbursement</td>
<td>3,005.50</td>
<td>2,850.00</td>
<td>155.50</td>
<td>3,800.00</td>
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<td>Continuing Professional Ed</td>
<td>695.00</td>
<td>695.00</td>
<td>0.00</td>
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<tr>
<td>Staff Development</td>
<td>3,535.72</td>
<td>3,900.00</td>
<td>(364.28)</td>
<td>5,200.00</td>
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<tr>
<td>Computer Hardware/Software</td>
<td>1,492.10</td>
<td>3,000.00</td>
<td>(1,507.90)</td>
<td>4,000.00</td>
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<td>Office Supplies</td>
<td>1,020.68</td>
<td>4,500.00</td>
<td>(3,479.32)</td>
<td>6,000.00</td>
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<td>Meetings</td>
<td>2,486.90</td>
<td>3,750.00</td>
<td>(1,263.10)</td>
<td>5,000.00</td>
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<tr>
<td>Copy Paper &amp; Supplies</td>
<td>33.94</td>
<td>1,125.00</td>
<td>(1,125.00)</td>
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<tr>
<td>Printing</td>
<td>813.25</td>
<td>1,500.00</td>
<td>(686.75)</td>
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<tr>
<td>Postage &amp; Deliveries</td>
<td>1,051.16</td>
<td>1,875.00</td>
<td>(823.84)</td>
<td>2,500.00</td>
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</tr>
<tr>
<td>Subscription &amp; Reference</td>
<td>452.06</td>
<td>1,500.00</td>
<td>(1,047.94)</td>
<td>2,000.00</td>
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<tr>
<td>Dues &amp; Memberships</td>
<td>644.73</td>
<td>1,650.00</td>
<td>(1,005.27)</td>
<td>2,200.00</td>
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<tr>
<td>Insurance</td>
<td>2,278.00</td>
<td>2,278.00</td>
<td>0.00</td>
<td>4,000.00</td>
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<tr>
<td>Equipment Maintenance</td>
<td>3,880.60</td>
<td>4,875.00</td>
<td>(994.40)</td>
<td>6,500.00</td>
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<tr>
<td>Water Conservation</td>
<td>13,528.63</td>
<td>67,500.00</td>
<td>(53,971.37)</td>
<td>90,000.00</td>
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<tr>
<td><strong>Total Operating Expenses</strong></td>
<td>946,508.92</td>
<td>1,028,360.47</td>
<td>(81,851.55)</td>
<td>1,354,136.00</td>
<td></td>
</tr>
</tbody>
</table>

**Reserve and Contingency Funds Summary:**

- **Contingency Fund Balance on 3/31/17**: $600,000
- **Reserve Fund Balance on 3/31/17**: $202,000
- **Total Contingency and Reserve Funds**: $802,000

**Note 1:** Responsive website development is funded through FY16 $60,000 and FY17 $25,000 for a total of $85,000. Encumbered unspent funds of $29,354.31 from FY16 will be spent in this Fiscal Year. At Fiscal Year-end this line item will show total expenditures of $54,354.31 to complete this project.

AMWUA’s Fiscal Year begins on July 1st and ends on June 30th.
# ARIZONA MUNICIPAL WATER USERS ASSOCIATION

## Balance Sheet

As of 3/31/2017

### Assets

**Current Assets**

<table>
<thead>
<tr>
<th>Item</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Petty Cash</td>
<td>$500.00</td>
</tr>
<tr>
<td>Compass Checking</td>
<td>59,375.23</td>
</tr>
<tr>
<td>Compass Money Market</td>
<td>411,326.08</td>
</tr>
<tr>
<td>Investment Account (LGIP)</td>
<td>805,247.88</td>
</tr>
<tr>
<td>Accounts Receivable</td>
<td>2,500.00</td>
</tr>
<tr>
<td>Prepaid Expenses</td>
<td>22,760.66</td>
</tr>
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</table>

Total Current Assets: $1,301,709.85

**Property, Plant & Equipment**

<table>
<thead>
<tr>
<th>Item</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Furniture &amp; Equipment</td>
<td>$170,062.24</td>
</tr>
<tr>
<td>Leasehold Improvements</td>
<td>52,665.08</td>
</tr>
<tr>
<td>Accum Depreciation Furniture</td>
<td>(150,770.09)</td>
</tr>
<tr>
<td>Accum Depreciation Leasehold</td>
<td>(49,286.40)</td>
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</table>

Total Property, Plant & Equipment: 22,670.83

**Other Assets**

<table>
<thead>
<tr>
<th>Item</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deferred Outflow-Pension Resources</td>
<td>$82,236.03</td>
</tr>
</tbody>
</table>

Total Assets: $1,406,616.71

### Liabilities and Equity

**Current Liabilities**

<table>
<thead>
<tr>
<th>Item</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Retirees Excess Benefit Clearance</td>
<td>3,246.35</td>
</tr>
<tr>
<td>Accrued Expenses</td>
<td>124,463.48</td>
</tr>
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</table>

Total Current Liabilities: $127,709.83

**Long Term Liabilities**

<table>
<thead>
<tr>
<th>Item</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net Pension Liability</td>
<td>$924,728.00</td>
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<tr>
<td>Deferred Inflow-Pension Resources</td>
<td>325,516.00</td>
</tr>
<tr>
<td>Deferred Revenues</td>
<td>23,292.12</td>
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</table>

Total Long Term Liabilities: 1,273,536.12

Total Liabilities: $1,401,245.95

**Equity**

<table>
<thead>
<tr>
<th>Item</th>
<th>Amount</th>
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<tbody>
<tr>
<td>Fund Balance</td>
<td>5,370.76</td>
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Total Liabilities and Equity: $1,406,616.71
AMWUA Fiscal Year 2018 Draft Budget

STRATEGIC PLAN REFERENCE

Operational Principles – Manage an Efficient and Effective Association

SUMMARY

At the April 12, 2017 meeting, the preliminary draft Fiscal Year 2018 budget was presented to the Management Board. The preliminary draft budget was also presented to the AMWUA Board of Directors at its April 27, 2017 meeting. Neither Board had questions or comments regarding the budget. Attached is the draft Fiscal Year 2018 annual budget, which includes a summary page with comments to explain increases or decreases to line items.

Development of the Fiscal Year 2018 budget was guided by AMWUA’s Strategic Plan and the recently approved Annual Plan for Fiscal Year 2018. This budget allows AMWUA to continue to be a forum for its members to collaborate on water issues; to develop and advocate positions that safeguard our water resources; to promote continual planning and investment for resources and infrastructure with the Legislature, ADWR, CAWCD, SRP and other stakeholders; and to be at the forefront of demand management and water conservation efforts.

This draft budget shows a decrease of $3,867 from the approved Fiscal Year 2017 budget. The following summarizes the budget categories and provides explanation for line items that have an increase or decrease from last year’s budget.

Administration – This includes salaries and ASRS retirement contributions, reflecting an increase of $42,076. The increase is primarily due to the following:

- Following annual employee reviews, most of the staff received a 2% performance award halfway through the Fiscal Year 2017, which was in the current budget.
- Programs Assistant – A $5,000 increase is recommended for the salary of the Programs Assistant. When the Administrative Assistant position needed to be filled this fiscal year, the position was renamed to Programs Assistant to better reflect the tasks needed from this position to assist both the Office Manager and the Assistant Director. The $5,000 increase to this position better reflects the job description and salaries of positions with similar duties.
• Receptionist – This part-time position is $22,880, which is the same amount that was listed under temporary services for filling this position through a temp agency. By moving the position to administration, we are able to gain more hours from the position (from 20 to 25 hours per week) and retain the current employee who has performed very well in this position.
• Performance Awards – An up-to 2.5% performance award for each full-time employee, except the Executive Director and Programs Assistant, is recommended for employees who excel in their performance. The awards would occur halfway through Fiscal Year 2018.

Employee Benefits - The increase of $4,310 is due primarily to increases from payroll and taxes based on the increase under Administration, including moving the Receptionist position from Temporary Services to Administration.

Professional Services – This includes outside services that AMWUA utilizes throughout the year. The budget reflects a decrease of $52,280 from last year. The main changes include:
• Temporary Services/Receptionist – As explained above, this has been moved to Administration.
• Website Maintenance – There is no change to this line item. The actuals are projected to be higher due to a carryover from Fiscal Year 2016, which was applied to Fiscal Year 2017. Actuals are also higher due to unanticipated expenses with transferring all websites to a new hosting service that is more flexible and cost effective.
• Audio/Visual Development – This new category at $2,500 would cover what we are not able to build or produce in-house for needed graphics, infographics, videos, podcast recordings, PowerPoint assets, the layout/design of special documents, photo purchases and related items that support projects, websites, blog and social media.
• IT Services – This professional service was pulled out from Equipment Maintenance, where it had been included, to be more consistent with the budget structure and better differentiate the work performed to maintain and troubleshoot AMWUA’s IT hardware and software.
• Financing and Accounting Services – The reduction on this line item is per the contract accepted by the AMWUA Board at its December 2016 meeting.
• Audit – The $900 increase is per the 5th year of the five-year agreement.

Occupancy – These items are related to the renting of office and meeting space for AMWUA, and reflect a $1,626 increase.
• Office Space – AMWUA’s lease calls for a final scheduled rent increase to begin in March 2018 and is reflected in this line item. The monthly lease amount will stay in place until 2021.
• Building Operating Costs – The line item is for AMWUA’s proportionate share of building common area maintenance costs and is non-negotiable.
**Training and Travel** – This category covers items involved with staff participating in conferences, workshops, and training along with the related travel expenses. This category has an overall decrease of $500.

- Conferences/Travel – The $500 increase is to better allow for attendance at known conferences and workshops, as well as unanticipated ones.
- Mileage Reimbursement – This covers mileage reimbursement to local conferences and workshops and other meetings that staff attends. The $800 decrease is to better reflect the actuals from the current year.

**Capital Outlay** – The two items under this category cover AMWUA’s primary capital property. The increase of $2,000 is due to the following:

- Copy Machine Expenses – This remains at $5,200 to cover copier lease payments and per copy charges.
- Computer/Equipment/Software – This includes AMWUA’s server backup and recoverable files, and technical support and maintenance for accounting software. The $2,000 increase is to be able to update the email services and existing out-of-date Microsoft Office software, and to respond to unanticipated computer related needs.

**Office Operating Expenses** – These items cover AMWUA’s day-to-day office operating expenses. This category has a decrease of $1,100.

- Supplies – The $1,000 increase is due to combining Copy Paper & Supplies within this line item. However, the net effect of combining the two categories is a $500 decrease.
- Meetings – This includes providing lunches at a number of AMWUA meetings along with coffee, and the other related supplies.
- Outreach Efforts – This new line item of $5,000 is to allow AMWUA to continue to do outreach efforts such as the Legislative Forum and the Finance Workshop.
- Printing – This line item covers letterhead, envelopes, business cards, special print projects, checks, etc. The $300 increase is to cover the need for reprinting a number of those items.
- Postage & Deliveries – The $500 reduction is to better match actuals from the current fiscal year.
- Subscription & Reference – This line item includes using Constant Contact for sending out mass emails for the blog, Gannet digital newspaper, legislative materials, AZ Capitol Times, The Water Report, and Arizona water law books.
- Dues & Memberships – This line item is reduced to better match actuals.
- Insurance/Public Liability and Property Damage – This line item includes AMWUA’s general liability insurance and Directors & Officers insurance. There is no change in this category.
- Equipment Maintenance – This line item decreased because the IT Services contract was moved under Professional Services.

**Water Conservation** – This category remains at $90,000, as it has been for the last six years. Half of the Regional Conservation Program budget funds ongoing commitments, including the
implementation and support of landscape professional training programs and conferences, funding of the Water—Use It Wisely conservation awareness campaign, membership in the Alliance for Water Efficiency, and printing materials to promote the regional websites, resources, and programs.

The remainder of the budget supports the maintenance, updating, and development of publications, websites, and resources; research; and efficiency training that support individual member efforts. In Fiscal Year 2018, a particular focus is being placed on projects that will support the development of member programs to improve water use efficiency in the commercial, institutional, and industrial sector.

**Members Assessment** – The draft Fiscal Year 2018 budget is $3,867 less than the approved Fiscal Year 2017 budget. Even though this budget is less than last year’s budget, there will be slight increases in the amounts assessed to the members. The reason for this is because last year the members benefitted from a carryover from the previous fiscal year of $59,211. There is a smaller carryover this year as AMWUA expects to finish under budget by approximately $13,871.

Please note that this is the second budget to reflect the new allocation process that was approved in 2015. This new process applies to the water portion of the budget. One-half of the proposed water budget is allocated evenly among all the members and the other half is based on the proportion of each member’s population to the total population. The population figures are taken from the MAG 2016 official population estimates. The wastewater portion of the budget continues to be allocated based on percentage of ownership at the 91st Avenue WWTP.

**RECOMMENDATION**

The AMWUA Board of Directors is requested to review and provide feedback regarding the draft Fiscal Year 2018 budget.

The AMWUA Board of Directors is also recommended to accept the AMWUA Management Board’s recommendation from their May 10, 2017 meeting that the budget for Fiscal Year 2018 be adopted as presented (and include any changes discussed).

**ATTACHMENT**

- AMWUA Fiscal Year 2018 Draft Budget
## ARIZONA MUNICIPAL WATER USERS ASSOCIATION
### Fiscal Year 2018
#### Preliminary Draft

### ASSESSMENT SUMMARY

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<tr>
<th></th>
<th>WATER FY 17</th>
<th>WATER FY 18</th>
<th>WASTEWATER FY 17</th>
<th>WASTEWATER FY 18</th>
<th>TOTAL FY 17</th>
<th>TOTAL FY 18</th>
<th>Change</th>
<th>Change</th>
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<td>94,495</td>
<td>95,657</td>
<td>1,162</td>
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<td>CITY OF AVONDALE</td>
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<td>67,364</td>
<td>68,481</td>
<td>1,117</td>
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<td>TOWN OF GILBERT</td>
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<td>93,965</td>
<td></td>
<td></td>
<td>93,466</td>
<td>93,965</td>
<td>499</td>
<td>0.53%</td>
</tr>
<tr>
<td>CITY OF GLENDALE</td>
<td>92,178</td>
<td>93,613</td>
<td>12,832</td>
<td>14,335</td>
<td>105,010</td>
<td>107,948</td>
<td>2,938</td>
<td>2.80%</td>
</tr>
<tr>
<td>CITY OF GOODYEAR</td>
<td>67,187</td>
<td>68,180</td>
<td></td>
<td></td>
<td>67,187</td>
<td>68,180</td>
<td>993</td>
<td>1.48%</td>
</tr>
<tr>
<td>CITY OF MESA</td>
<td>128,184</td>
<td>130,249</td>
<td>28,406</td>
<td>31,733</td>
<td>156,591</td>
<td>161,982</td>
<td>5,391</td>
<td>3.44%</td>
</tr>
<tr>
<td>CITY OF PEORIA</td>
<td>81,476</td>
<td>82,232</td>
<td></td>
<td></td>
<td>81,476</td>
<td>82,232</td>
<td>756</td>
<td>0.93%</td>
</tr>
<tr>
<td>CITY OF PHOENIX</td>
<td>297,968</td>
<td>304,413</td>
<td>109,659</td>
<td>122,501</td>
<td>407,627</td>
<td>426,914</td>
<td>19,287</td>
<td>4.73%</td>
</tr>
<tr>
<td>CITY OF SCOTTSDALE</td>
<td>91,611</td>
<td>93,652</td>
<td>19,686</td>
<td>21,992</td>
<td>111,297</td>
<td>115,644</td>
<td>4,347</td>
<td>3.91%</td>
</tr>
<tr>
<td>CITY OF TEMPE</td>
<td>82,189</td>
<td>83,866</td>
<td>28,222</td>
<td>31,527</td>
<td>110,411</td>
<td>115,393</td>
<td>4,982</td>
<td>4.51%</td>
</tr>
<tr>
<td>Total from Members</td>
<td>1,096,118</td>
<td>1,114,309</td>
<td>198,805</td>
<td>222,088</td>
<td>1,294,924</td>
<td>1,336,397</td>
<td>41,473</td>
<td>3.20%</td>
</tr>
</tbody>
</table>

Other Funding Sources:
- 2017 Carryover applied to Members 2018 assessments 13,871
- 2016 Carryover applied to 2017 Website Development -25,000
- 2016 Carryover applied to Members 2017 assessments 34,211

**TOTAL All Sources** 1,133,717 1,128,180 220,419 222,088 1,354,136 1,350,268 -3,867 -0.29%

Note #1. 50% of the water portion of the budget is allocated equally with the remaining based on population according to the MAG 2016 official population estimates.

Note #2. Wastewater Assessments based on ownership in 91st Avenue Wastewater Treatment Plant @ 204.50 MGD.
## EXPENDITURE SUMMARY

<table>
<thead>
<tr>
<th></th>
<th>WATER FY 17</th>
<th>WATER FY 18</th>
<th>WASTEWATER FY 17</th>
<th>WASTEWATER FY 18</th>
<th>TOTAL FY 17</th>
<th>TOTAL FY 18</th>
<th>Dollar Change</th>
<th>Percentage Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>ADMINISTRATION</td>
<td>531,034</td>
<td>562,816</td>
<td>98,938</td>
<td>109,232</td>
<td>629,972</td>
<td>672,048</td>
<td>42,076</td>
<td>6.68%</td>
</tr>
<tr>
<td>EMPLOYEE BENEFITS</td>
<td>104,358</td>
<td>107,807</td>
<td>19,452</td>
<td>20,313</td>
<td>123,810</td>
<td>128,120</td>
<td>4,310</td>
<td>3.48%</td>
</tr>
<tr>
<td>PROFESSIONAL SERVICES</td>
<td>226,568</td>
<td>184,537</td>
<td>38,612</td>
<td>28,363</td>
<td>265,180</td>
<td>212,900</td>
<td>-52,280</td>
<td>-19.71%</td>
</tr>
<tr>
<td>OCCUPANCY</td>
<td>134,538</td>
<td>134,877</td>
<td>54,736</td>
<td>56,023</td>
<td>189,274</td>
<td>190,900</td>
<td>1,626</td>
<td>0.86%</td>
</tr>
<tr>
<td>TRAVEL, TRAINING &amp; CONFER.</td>
<td>12,750</td>
<td>12,325</td>
<td>2,250</td>
<td>2,175</td>
<td>15,000</td>
<td>14,500</td>
<td>-500</td>
<td>-3.33%</td>
</tr>
<tr>
<td>CAPITAL OUTLAY</td>
<td>7,754</td>
<td>9,380</td>
<td>1,446</td>
<td>1,820</td>
<td>9,200</td>
<td>11,200</td>
<td>2,000</td>
<td>21.74%</td>
</tr>
<tr>
<td>OFFICE OPERATING EXPENSES</td>
<td>26,715</td>
<td>26,438</td>
<td>4,985</td>
<td>4,162</td>
<td>31,700</td>
<td>30,600</td>
<td>-1,100</td>
<td>-3.47%</td>
</tr>
<tr>
<td>WATER CONSERVATION</td>
<td>90,000</td>
<td>90,000</td>
<td>90,000</td>
<td>90,000</td>
<td>90,000</td>
<td>90,000</td>
<td>-0-</td>
<td>.00%</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>1,133,717</strong></td>
<td><strong>1,128,180</strong></td>
<td><strong>220,419</strong></td>
<td><strong>222,088</strong></td>
<td><strong>1,354,135</strong></td>
<td><strong>1,350,268</strong></td>
<td><strong>-3,867</strong></td>
<td><strong>-0.29%</strong></td>
</tr>
</tbody>
</table>
## BUDGET COMMENTS

### ADMINISTRATION

<table>
<thead>
<tr>
<th>Position</th>
<th>FY 16</th>
<th>FY 17</th>
<th>FY 17</th>
<th>FY 18</th>
<th>COMMENTS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Executive Director</td>
<td>65,000</td>
<td>135,000</td>
<td>135,000</td>
<td>137,700</td>
<td>Increase per Board’s direction from 2/23/2017 meeting.</td>
</tr>
<tr>
<td>Assistant Director</td>
<td>95,367</td>
<td>95,367</td>
<td>95,367</td>
<td>97,274</td>
<td>Increase per performance award effective 1/1/2017-based on performance evaluation.</td>
</tr>
<tr>
<td>Program Manager-Fiscal/SROG</td>
<td>108,443</td>
<td>73,000</td>
<td>73,000</td>
<td>74,460</td>
<td>Increase per performance award effective 1/1/2017-based on performance evaluation.</td>
</tr>
<tr>
<td>Water Policy Analyst</td>
<td>75,000</td>
<td>73,000</td>
<td>73,730</td>
<td>74,460</td>
<td>Increase per performance award effective 1/1/2017-based on performance evaluation.</td>
</tr>
<tr>
<td>Water Policy Analyst</td>
<td>60,000</td>
<td>70,000</td>
<td>70,000</td>
<td>70,000</td>
<td>No increase this year but still received a performance evaluation.</td>
</tr>
<tr>
<td>SROG Coordinator</td>
<td>70,000</td>
<td>70,000</td>
<td>70,000</td>
<td>71,400</td>
<td>Increase per performance award effective 1/1/2017-based on performance evaluation.</td>
</tr>
<tr>
<td>Programs Assistant</td>
<td>42,124</td>
<td>42,124</td>
<td>29,838</td>
<td>47,124</td>
<td>Salary adjusted to better reflect job description duties as compared to similar positions, and strong performance.</td>
</tr>
<tr>
<td>Receptionist (part-time)</td>
<td>32,963</td>
<td>32,963</td>
<td>22,880</td>
<td>22,880</td>
<td>Position had been listed under temporary services. Able to gain more hours (20 to 25 per week) at same cost and want to retain as employee at end of temporary services agreement.</td>
</tr>
<tr>
<td>Performance Awards</td>
<td>3,535</td>
<td>3,535</td>
<td>3,535</td>
<td>4,845</td>
<td>Up to 2.5% performance award for full-time employees except Executive Director and Programs Assistant for last six months of FY 2018.</td>
</tr>
<tr>
<td>Deferred Compensation: Arizona State Retirement</td>
<td>63,260</td>
<td>67,946</td>
<td>59,000</td>
<td>71,905</td>
<td>Slight increase due to moving position from temp services to admin and proposed performance awards.</td>
</tr>
<tr>
<td><strong>Subtotal</strong></td>
<td>612,157</td>
<td>629,972</td>
<td>607,365</td>
<td>672,048</td>
<td></td>
</tr>
</tbody>
</table>

### EMPLOYEE BENEFITS

<table>
<thead>
<tr>
<th>Benefit</th>
<th>FY 16</th>
<th>FY 17</th>
<th>FY 17</th>
<th>FY 18</th>
<th>COMMENTS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Payroll Processing,Taxes, Insur</td>
<td>65,000</td>
<td>51,690</td>
<td>50,171</td>
<td>56,000</td>
<td>Increase required to meet projected salary increases and inclusion of part-time employee.</td>
</tr>
<tr>
<td>Medical, Dental, Life, Disability</td>
<td>72,500</td>
<td>69,000</td>
<td>65,350</td>
<td>69,000</td>
<td>No change</td>
</tr>
<tr>
<td>Cell Phone Allowance</td>
<td>870</td>
<td>3,120</td>
<td>3,120</td>
<td>3,120</td>
<td>No change</td>
</tr>
<tr>
<td><strong>Subtotal</strong></td>
<td>138,370</td>
<td>123,810</td>
<td>118,641</td>
<td>128,120</td>
<td></td>
</tr>
</tbody>
</table>

### PROFESSIONAL SERVICES

<table>
<thead>
<tr>
<th>Service</th>
<th>FY 16</th>
<th>FY 17</th>
<th>FY 17</th>
<th>FY 18</th>
<th>COMMENTS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Temporary Services/Receptionist</td>
<td>22,880</td>
<td>15,500</td>
<td>15,061</td>
<td>5,000</td>
<td>-0- Moved to Administration as part-time Receptionist. Actuals under due to position not filled the full year.</td>
</tr>
<tr>
<td>Website Maintenance</td>
<td>10,000</td>
<td>5,000</td>
<td>10,061</td>
<td>5,000</td>
<td>No change - actuals over due to unanticipated expenses with transferring all websites to new single hosting service.</td>
</tr>
<tr>
<td>Audio/Visual Development</td>
<td>4,000</td>
<td>4,000</td>
<td>4,000</td>
<td>4,000</td>
<td>No change - actuals over due to unanticipated expenses with transferring all websites to new single hosting service.</td>
</tr>
<tr>
<td>IT Services</td>
<td>5,000</td>
<td>5,000</td>
<td>5,000</td>
<td>5,000</td>
<td>No change - actuals over due to unanticipated expenses with transferring all websites to new single hosting service.</td>
</tr>
<tr>
<td>Communication</td>
<td>40,000</td>
<td>40,000</td>
<td>40,000</td>
<td>40,000</td>
<td>No change</td>
</tr>
<tr>
<td>Legal/Policy Consulting</td>
<td>120,000</td>
<td>60,000</td>
<td>60,000</td>
<td>60,000</td>
<td>No change</td>
</tr>
<tr>
<td>Responsive Website Development</td>
<td>60,000</td>
<td>25,000</td>
<td>54,354</td>
<td>54,354</td>
<td>New website to be completed by end of FY 2017. Actuals include carryover funds.</td>
</tr>
<tr>
<td>Legislative</td>
<td>30,000</td>
<td>42,000</td>
<td>42,000</td>
<td>42,000</td>
<td>No change</td>
</tr>
<tr>
<td>Financial and Accounting Services</td>
<td>40,800</td>
<td>34,400</td>
<td>34,400</td>
<td>34,400</td>
<td>Decrease in contract as accepted by the Board at its 12/8/2016 meeting.</td>
</tr>
<tr>
<td>Audit</td>
<td>28,650</td>
<td>29,500</td>
<td>29,500</td>
<td>30,400</td>
<td>Increase per 5th year of a five year agreement.</td>
</tr>
<tr>
<td><strong>Subtotal</strong></td>
<td>288,650</td>
<td>265,180</td>
<td>285,815</td>
<td>212,900</td>
<td></td>
</tr>
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</table>

### OCCUPANCY

<table>
<thead>
<tr>
<th>Expense</th>
<th>FY 16</th>
<th>FY 17</th>
<th>FY 17</th>
<th>FY 18</th>
<th>COMMENTS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Office Space</td>
<td>171,575</td>
<td>172,074</td>
<td>172,074</td>
<td>174,200</td>
<td>AMWUA’s lease calls for the final scheduled rent increase in March 2018.</td>
</tr>
<tr>
<td>Building Operating Costs</td>
<td>3,500</td>
<td>3,000</td>
<td>3,525</td>
<td>3,500</td>
<td>Increase in AMWUA’s proportionate share of building common area maintenance costs.</td>
</tr>
<tr>
<td>Telecommunications</td>
<td>10,000</td>
<td>10,000</td>
<td>8,500</td>
<td>9,000</td>
<td>Reduced to better match actuals.</td>
</tr>
<tr>
<td>E-Mail/Webpage/Internet Access</td>
<td>4,120</td>
<td>4,200</td>
<td>4,150</td>
<td>4,200</td>
<td>No change</td>
</tr>
<tr>
<td><strong>Subtotal</strong></td>
<td>189,195</td>
<td>189,274</td>
<td>188,249</td>
<td>190,900</td>
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</tr>
</tbody>
</table>
## BUDGET COMMENTS

<table>
<thead>
<tr>
<th></th>
<th>BUDGET TOTAL FY 16</th>
<th>BUDGET TOTAL FY 17</th>
<th>ESTIMATED ACTUAL FY 17</th>
<th>BUDGET TOTAL FY 18</th>
<th>COMMENTS</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>TRAINING AND TRAVEL</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Conferences/Travel</td>
<td>7,000</td>
<td>8,500</td>
<td>8,300</td>
<td>9,000</td>
<td>Increase to better allow attendance at known conferences and workshops and unanticipated ones.</td>
</tr>
<tr>
<td>Mileage Reimbursement</td>
<td>3,500</td>
<td>3,800</td>
<td>2,700</td>
<td>3,000</td>
<td>Reduced to better match actuals from FY 2017</td>
</tr>
<tr>
<td>Continuing Professional Ed</td>
<td>1,600</td>
<td>1,200</td>
<td>695</td>
<td>1,000</td>
<td>Reduced to better match actuals from FY 2017</td>
</tr>
<tr>
<td>Staff Development</td>
<td>2,500</td>
<td>1,500</td>
<td>-0-</td>
<td>1,500</td>
<td>No change - intend to do more concerted development.</td>
</tr>
<tr>
<td>Subtotal</td>
<td>14,600</td>
<td>15,000</td>
<td>11,695</td>
<td>14,500</td>
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</tr>
<tr>
<td><strong>CAPITAL OUTLAY</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Copy Machine Expenses</td>
<td>5,500</td>
<td>5,200</td>
<td>4,800</td>
<td>5,200</td>
<td>No change</td>
</tr>
<tr>
<td>Computer/Equipment/Software</td>
<td>4,000</td>
<td>4,000</td>
<td>4,000</td>
<td>6,000</td>
<td>Increase to update email services and office software, and to cover unanticipated computer needs</td>
</tr>
<tr>
<td>Subtotal</td>
<td>9,500</td>
<td>9,200</td>
<td>8,800</td>
<td>11,200</td>
<td></td>
</tr>
<tr>
<td><strong>OFFICE OPERATING EXPENSES</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Supplies</td>
<td>6,000</td>
<td>6,000</td>
<td>6,000</td>
<td>7,000</td>
<td>Copy Paper &amp; Supplies consolidated under Supplies - reduced to better match actuals from FY 2017</td>
</tr>
<tr>
<td>Meetings</td>
<td>3,000</td>
<td>5,000</td>
<td>5,000</td>
<td>5,000</td>
<td>No Change</td>
</tr>
<tr>
<td>Outreach Efforts</td>
<td>1,500</td>
<td>1,500</td>
<td>1,500</td>
<td>5,000</td>
<td>New line item to allow for outreach efforts AMWUA may pursue such as legislative forum</td>
</tr>
<tr>
<td>Copy Paper &amp; Supplies</td>
<td>2,000</td>
<td>2,000</td>
<td>2,000</td>
<td>2,300</td>
<td>-0- Consolidated with Supplies</td>
</tr>
<tr>
<td>Printing</td>
<td>1,000</td>
<td>2,500</td>
<td>2,000</td>
<td>2,000</td>
<td>Reduced for projected reprint of letterhead, envelopes and business cards</td>
</tr>
<tr>
<td>Postage &amp; Deliveries</td>
<td>7,000</td>
<td>2,000</td>
<td>1,200</td>
<td>1,300</td>
<td>Reduced to better match actuals from FY 2017</td>
</tr>
<tr>
<td>Subscription &amp; Reference</td>
<td>2,200</td>
<td>2,200</td>
<td>1,500</td>
<td>2,000</td>
<td>Reduced to better match actuals from FY 2017</td>
</tr>
<tr>
<td>Insurance-Public Liability</td>
<td>6,000</td>
<td>4,000</td>
<td>4,000</td>
<td>4,000</td>
<td>No change</td>
</tr>
<tr>
<td>and Property Damage</td>
<td>6,500</td>
<td>6,500</td>
<td>6,500</td>
<td>2,000</td>
<td>IT Services moved to Professional Services</td>
</tr>
<tr>
<td>Subtotal</td>
<td>35,200</td>
<td>31,700</td>
<td>29,700</td>
<td>30,600</td>
<td></td>
</tr>
<tr>
<td><strong>WATER CONSERVATION</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Operating Expenses</td>
<td>1,377,672</td>
<td>1,354,136</td>
<td>1,340,265</td>
<td>1,350,268</td>
<td>No change</td>
</tr>
<tr>
<td><strong>FUNDING SOURCES</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2017 Carryover applied to 2018 assessments</td>
<td>13,871</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2016 Carryover applied to 2017 website develop.</td>
<td>25,000</td>
<td>25,000</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2015 Carryover applied to 2016 website develop.</td>
<td>60,000</td>
<td>60,000</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Carryover applied to members assessments</td>
<td>37,433</td>
<td>34,211</td>
<td>34,211</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Member Assessments</td>
<td>1,280,239</td>
<td>1,294,925</td>
<td>1,294,925</td>
<td>1,336,397</td>
<td></td>
</tr>
<tr>
<td>Total Funding</td>
<td>1,377,672</td>
<td>1,354,136</td>
<td>1,354,136</td>
<td>1,350,268</td>
<td></td>
</tr>
</tbody>
</table>
### EXPENDITURES DETAIL

<table>
<thead>
<tr>
<th>ADMINISTRATION</th>
<th>WATER BUDGET</th>
<th>WATER ACTUAL</th>
<th>WATER ESTIMATED</th>
<th>WATER ACTUAL</th>
<th>WASTEWATER BUDGET</th>
<th>WASTEWATER ACTUAL</th>
<th>WASTEWATER ESTIMATED</th>
<th>WASTEWATER ACTUAL</th>
<th>TOTAL BUDGET</th>
<th>TOTAL ACTUAL</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>FY 17</td>
<td>FY 17</td>
<td>FY 17</td>
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CAWCD Water Storage Tax

STRATEGIC PLAN REFERENCE

Objectives – Minimize Financial Impacts
Collaboration – Central Arizona Project
Operational Principles – Excel as an Expert and Resource

SUMMARY

The Central Arizona Water Conservation District (CAWCD) assesses two ad valorem property taxes in its service territory – a 10-cent general tax and the 4-cent water storage tax. The water storage tax can be used to support repayment of CAWCD’s federal debt, offset annual operations, maintenance, and replacements costs of the Central Arizona Project (CAP), or be deposited into the Arizona Water Bank fund.

Since the authorized uses for the tax have changed over time, there have been differing perspectives about the tax’s history, uses, and funds from the tax that have accumulated over time in Maricopa County. AMWUA thought it would be beneficial to do a review of the water storage tax to ensure we have mutual understanding of the tax. After gaining a clear understanding of the tax, AMWUA can better discuss with its members how we could best advocate for an efficient use of these tax revenues.

Staff has prepared a presentation that summarizes the findings of AMWUA’s review of CAWCD’s water storage tax. This presentation was given to the AMWUA Management Board at its April 12, 2017 meeting.

RECOMMENDATION

The AMWUA Board of Directors is encouraged to discuss staff’s presentation regarding CAWCD’s water storage tax.

ATTACHMENT

- **Attachment A**: Central Arizona Water Conservation District’s Water Storage Tax Paper
- **Attachment B**: CAWCD Water Storage Tax Presentation
Central Arizona Water Conservation District’s
Water Storage Tax
March 31, 2017

EXECUTIVE SUMMARY

The Central Arizona Water Conservation District (CAWCD) has assessed a four-cent ad valorem property tax since 1990. Currently, the tax is assessed in Maricopa, Pinal, and Pima Counties and can be used to support repayment of CAWCD’s federal debt, offset annual operations, maintenance, and replacements costs of the Central Arizona Project (CAP), or be deposited into the Arizona water banking fund. The authorized uses for the tax have changed over time. These changes and the reasons for them are important to understand and are detailed in this paper. Since its inception, the tax has primarily been used to construct underground water storage facilities and purchase water for the Arizona Water Banking Authority (AWBA) to be stored at those facilities.

The Arizona Municipal Water Users Association (AMWUA) is interested in the water storage tax because it is a key funding source for CAWCD and because the account containing Maricopa County’s tax revenues has a balance of more than $113 million. Representing 84 percent of Maricopa County taxpayers and a substantial portion of CAWCD’s municipal and industrial subcontracts, AMWUA is uniquely positioned to advocate for an efficient use of these tax revenues.

A substantial balance has accumulated in the Maricopa account and not the Pinal and Pima accounts because of statutory restrictions on how the tax is assessed, differences in total property valuations, and the cost of storing water in each county. According to internal calculations, AMWUA believes the existing Maricopa account balance has more than enough money to achieve the AWBA’s recently reviewed firming goal for times when CAP supplies are reduced, excluding annual revenues that continue to be collected.

How remaining revenues are used is important because they ultimately affect how costs of CAP water are distributed among both Maricopa County taxpayers and CAP water users. In addition to its historical use, CAWCD and others have suggested a myriad of other potential uses for the existing Maricopa balance as well as ongoing collections including funding recovery infrastructure. AMWUA believes a more detailed plan for using these tax revenues is crucial to ensuring its members enjoy their maximum benefit.
INTRODUCTION

The Central Arizona Water Conservation District’s (CAWCD or District) four-cent tax, or more formally the water storage tax, is a property tax authorized by the Arizona State Legislature in 1990. The tax is assessed by CAWCD ad valorem, i.e., according to value, and cannot exceed four cents collected per $100 in Net Assessed Valuation (NAV). As its informal name implies, the tax is currently set at four cents and is assessed in Maricopa, Pinal, and Pima counties—CAWCD’s service area. To put the tax burden into perspective, the water storage tax would cost $8 annually on a home valued at $200,000. Statute says the tax can be used for three purposes:

1. Repayment of the construction costs of the Central Arizona Project (CAP or the Project) including interest owed to the federal government;
2. Annual operation, maintenance and replacement (OM&R) costs of the Central Arizona Project;
3. Arizona water banking fund.

According to statute, tax dollars not used for the first two purposes must be used for the third. It is important to note that the water storage tax is entirely different from the general ad valorem tax CAWCD also assesses, currently set at a rate of ten cents per $100 of NAV. The two taxes have different restrictions on how CAWCD can use the funds, with the general tax being more flexible.

The Arizona Municipal Water Users Association (AMWUA) is interested in water storage tax funds for two primary reasons. First, the water storage tax is an important source of revenue for CAWCD to defray the cost of the federal debt repayment and annual OM&R costs of the Project. These costs are paid in part by AMWUA’s members. Second, CAWCD has accumulated a surplus of over $113 million of water storage tax funds from Maricopa County taxpayers. AMWUA, serving the majority of Maricopa County water users, is interested in how these funds will be spent to maximize the benefit to its customers.

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1 Laws 1990, Ch. 385, § 6.
2 A.R.S. § 48-3715.02.B.
4 Central Arizona Water Conservation District, CAWCD’s 4-Cent Property Tax Extension of Levy Authority, December 2014.
5 A.R.S. § 48-3715.03.
6 A.R.S. § 48-3715.03.B.
7 A.R.S. § 48-3715.A.
8 Id.
The purpose of this paper is to provide a factual footing for future discussions regarding the water storage tax funds. This paper does not offer any legal opinions regarding the use of water storage tax funds, nor advocate for the funds to be used in any particular way.

HISTORY

The water storage tax has gone through a number of significant changes since 1990. These changes can be hard to follow given the name and rate of the tax have not changed since its inception. When discussing potential uses for the tax as it exists today, it is important to understand how and why the tax evolved over time. This understanding can offer clues regarding original intents and if those intents still apply. The following history is organized chronologically by years to highlight significant changes related to the water storage tax.

1990 – Funding state demonstration projects

In 1990, the Arizona State Legislature established a water storage tax and authorized CAWCD to “[p]lan, analyze, propose, apply for, construct, operate, maintain and dismantle state demonstration projects for underground water storage and recovery.” The Legislature also authorized CAWCD to “[a]cquire real property for state demonstration projects for underground storage and recovery sites...” using the tax collections.\(^{10,11}\) The newly enacted tax was not to “[e]xceed four cents per one hundred dollars of assessed valuation in the district[,]” and only be levied in Maricopa and Pima counties.\(^{12,13}\) The Legislature directed that money from the tax be deposited into separate accounts within the newly created State water storage fund, one for each county it was collected in.\(^{14}\) The Director of the Arizona Department of Water Resources (ADWR) administered the fund and could distribute funds to CAWCD only for projects that were located in the county where those funds were collected. The original legislation authorized the tax for five years, expiring in 1996.\(^{15}\)

The purpose of the state demonstration projects was to wisely manage Arizona’s water resources by storing unused CAP water to provide an additional source during times of serious water shortage.\(^{16}\) Water stored at state demonstration projects was to be used only for municipal and industrial (M&I) subcontractors and in the county where CAWCD collected the tax. As for funding, tax dollars were only to fund the construction, operation, and maintenance of the state demonstration projects as well as the cost of excess CAP water. Tax money could

\(^{10}\) “‘State demonstration project’ means a project for the underground storage and recovery of excess central Arizona project water established under this article” - Laws 1990, Ch. 385, § 3
\(^{11}\) Laws 1990, Ch. 385, § 5.
\(^{12}\) Id. at § 6.
\(^{13}\) The actual bill language authorized the tax, “[i]n counties with CAP municipal and industrial allocations greater than 50,000 acre-feet[,]” effectively Maricopa and Pima counties.
\(^{14}\) Laws 1990, Ch. 385, § 3.
\(^{15}\) Id. at § 6.
\(^{16}\) Laws 1990, Ch. 385, § 3.
also be advanced “to cover the district’s costs of recovering, transporting, and delivering the stored water and the costs of dismantling the project[.]” But, “[t]he person who receives the water shall pay the district’s cost, if any, of recovering, transporting and delivering the water to the person” either up front or through reimbursement though not “any other costs of construction, operation or maintenance[.]”

1994 – CAWCD gets a new revenue source

In 1994, the Legislature expanded the scope and use of the water storage tax, extending its authorization in the process. These changes followed the release of the Governor’s Central Arizona Project Advisory Committee’s Final Report and Recommendations the previous year.17 Lower than expected demand for CAP water by agricultural users meant that capital and fixed costs of the Project were spread across fewer users—driving up the price for remaining users. In addition to other policy concerns, the Advisory Committee recommended additional sources of revenue be considered, including the water storage tax, to subsidize the relatively high cost of CAP water.

Addressing the Advisory Committee’s recommendation, the Legislature added the repayment of CAWCD’s federal debt and annual OM&R costs as authorized uses of the tax.18 To ensure all those benefitting from any future District-wide use of the tax contributed, the Legislature added Pinal County to the tax assessment.19 It also revised the wording of the originally authorized purpose stating “…the fund shall be used to pay capital, operation, maintenance and other costs, including the costs of excess central Arizona project water, of underground storage and recovery projects operated by the district[.]”20

The 1994 update fundamentally changed the nature of the water storage tax. Following the changes, CAWCD could use funds to benefit the entire three-county Project area regardless of where the funds were collected if used for federal repayment or annual OM&R costs.21 In expanding the use of the funds, the legislation established the Multi-county water storage fund to take the place of the State water storage fund to hold money collected by the water storage tax. Subaccounts for each county were maintained for the new Multi-county water storage fund. These changes were to be implemented beginning in 1997 and the tax authorization was extended through 2000.22,23

Between 1991 and 1996, CAWCD used $33.7 million in water storage tax collections to build storage facilities and store water for the benefit of Maricopa County and $8.5 million for Pima

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19 Id. at § 12.
20 Id. at § 13.
21 Id.
23 Id. at § 14.
County.\textsuperscript{24} Underground storage facilities constructed completely or partially during this period were: Avra Valley, Pima Mine Road, Lower Santa Cruz, Agua Fria, Hieroglyphic Mountains (partial), and Tonopah Desert (partial).\textsuperscript{25}

\textbf{1996 – Funding for the Arizona Water Banking Authority}

To address the creation of the Arizona Water Banking Authority in 1996, the Legislature altered the water storage tax statutes again, this time bringing them very close to current law. First, the legislation required the CAWCD Board of Directors to “[a]nnually determine by resolution whether all or any part of the tax” would be used for federal repayment or to defray annual OM&R costs of the Project.\textsuperscript{26} Prior to this change, the Board was not required to adopt a resolution and absent such a resolution, all tax funds were to automatically be used for underground storage and recovery projects operated by CAWCD.\textsuperscript{27} As a part of this change, the Legislature struck out language authorizing usage of funds for underground storage and recovery projects. In its place, the Legislature added language stating that any funds not used by CAWCD for federal repayment or annual OM&R shall be deposited into the Arizona water banking fund, which replaced the Multi-county water storage fund.\textsuperscript{28} Finally, the 1996 legislation extended the tax authorization again through 2016.\textsuperscript{29}

\textbf{2003 – Protecting funds from the Legislature}

In 2003, the CAWCD Board of Directors materially altered the language of their statutorily required annual resolutions. Prior to tax year 2003-2004, the Board had resolved that none of the water storage tax collections would be used for federal repayment or annual OM&R costs and that the state treasurer should deposit all taxes levied into the Arizona water banking fund.\textsuperscript{30} The AWBA would then use the Arizona water banking fund to pay CAWCD for excess CAP water and any storage costs to earn long-term storage credits (LTSC).

The change was spurred by a series of appropriations, through transfer or expenditure authorization, by the Legislature of money in the Arizona water banking fund for non-water banking activities.\textsuperscript{31} CAWCD’s general counsel questioned the legality of the Legislature

\begin{thebibliography}{99}
\bibitem{26} Laws 1996, Ch. 308, § 24.
\bibitem{27} \textit{Id.}
\bibitem{28} \textit{Id.}
\bibitem{29} \textit{Id.} at § 23.
\bibitem{31} Laws 2001, Second Special Session, Ch. 4, § 1 ($1,000,000 transfer in FY 2001-2002); 2001 legislative transfer was from the AWBA’s administrative account consisting of interest earned on other Arizona Water Banking Fund balances (Arizona Water Banking Authority, \textit{Annual Report} 2002, 6, July 1, 2003); Laws 2003, Ch. 262, § 108
\end{thebibliography}
transferring money out of the Arizona water banking fund, particularly interest earned on water storage tax dollars. The Arizona Legislative Council responded, concluding that transfers of any funds that were not direct proceeds of the tax levy were legal. In other words, property tax dollars from the water storage tax are safe from transfer, but groundwater withdrawal fees and any other funds in the Arizona water banking fund, including any investment interest, could be appropriated by the Legislature. The Legislative Council’s opinion meant that if CAWCD wanted to guarantee that interest earnings on any tax collections would be available to it, then it would have to keep those collections out of the Arizona water banking fund to avoid them being swept for other uses.

To implement a more protective strategy, the CAWCD Board resolution for tax year 2003-2004 declared that all taxes levied would be applied to annual OM&R costs of the Project. The resolution went on to state “[t]hat all taxes levied...in the 2003-2004 tax year...be used by the District to defray the annual [OM&R] costs associated with the purchase of Project water by the [AWBA] for the purpose of firming CAP [M&I] water supplies and related administrative costs[.]” The idea behind this operation is that CAWCD would use water storage tax funds to offset its own cost of storing water for AWBA, normally paid for by AWBA out of the Arizona water banking fund. This practice meant that water storage tax dollars would still be used to store water for AWBA but not be transferred into the Arizona water banking fund simply to be paid back to CAWCD.

The CAWCD Board has chosen to shield water storage tax funds from Legislative sweeps in each annual resolution since 2003 by continuing this protective strategy.

**2010 – Broader annual resolution language**

Beginning with the 2010 tax year resolution, the CAWCD Board approved language that excluded any mention of water storage activities. The new resolution language only referred to defraying annual OM&R costs. By omitting the water storage language, CAWCD could use water storage tax funds to defray any of its OM&R costs instead of just those associated with

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33 Kenneth C. Behringer to Senator Herb Guenther, memorandum, May 2, 2002, “Arizona Water Banking Fund; Transfer (R-45-117)”.
34 **CAWCD v. Brewer**, Superior Court of Arizona in Maricopa County: Judge Kreamer ruled on June 10, 2011 that legislative transfers from AWBA’s interstate storage water banking subaccount are unconstitutional. This ruling only applies to money paid by other states for water banking activities. (Arizona Water Banking Authority, *Annual Report* 2011, 7, July 1, 2012).
water storage activities. The CAWCD Board felt the increased spending flexibility was important because of a number of large, unfunded liabilities it projected.

2013 – The first major use of surplus funds

In 2013, after a long debate regarding the best use of accumulated water storage tax funds, the CAWCD Board voted to transfer $45 million from its water storage tax reserve to replenish its strategic reserves.37 Two separate issues precipitated the transfer. First, CAWCD’s 2012 and projected 2013 rate reconciliations showed long-term subcontractors owing a substantial amount of money to CAWCD. This is because energy costs at the Navajo Generating Station (NGS) were coming in above where CAWCD had set the Pumping Energy rate. Rather than collect the 2012 underpayment from subcontractors and adjust the 2013 Pumping Energy rate mid-year, the CAWCD Board voted to settle the $32 million underpayment with a transfer to its working capital fund within the strategic reserves.38

Second, due to a collapse in wholesale energy market prices, there was substantially less revenue from surplus NGS electricity sales to supplement the federal debt repayment. As a result, CAWCD drew from its strategic reserves to replace the lost revenue in making the repayment. CAWCD used the remaining $13 million of the $45 million one-time transfer to help replenish its strategic reserves.

2015 – Extending the tax authorization and limiting revenue growth

In 2015, after a campaign to have the water storage tax authority extended, the Legislature passed a bill authorizing the tax at up to four cents through 2024, then up to 3 cents through 2029 at which time it expires.39 Also in 2015, Proposition 117 took effect.40 Proposition 117, approved by voters in November 2012, amended the Constitution of Arizona to limit appreciation in the Limited Property Value (LPV) used for ad valorem taxes to 5% per year. Prior to this change, CAWCD taxes were based on the Full Cash Value, not the LPV. Proposition 117 is important to the water storage tax because it affects the amount of tax collected by CAWCD annually. Recently, Proposition 117 has had the effect of lowering the amount of tax that would have been collected without its implementation.41

38 The transfer also acted to preserve the remaining SO2 allowance credit funds, historically used to settle underpayments, for future settlements.
39 Laws 2015, Ch. 224, § 1-2; Central Arizona Water Conservation District, CAWCD’s 4-Cent Property Tax Extension of Levy Authority, December 2014.
40 2012 Senate Concurrent Resolution 1025; Laws 2013, Ch. 66, § 17; Proposition 117 is formally known as the “Arizona Property Tax Assessed Valuation Amendment”.
WHY THE SURPLUS

As noted in the introduction, CAWCD has accumulated a surplus of over $110 million in water storage tax funds in its water storage tax reserve account for Maricopa County. The origins of this substantial surplus and why it accumulated only for Maricopa County lie primarily in statutory restrictions.

An important feature of the statutes governing AWBA operations is that it can only distribute LTSCs for the benefit of the county that provided the water storage tax dollars to accrue or purchase those LTSCs. Simply stated, the AWBA cannot expend Maricopa County water storage tax revenues to create or purchase LTSCs for the benefit of Pinal or Pima counties. Equally important is the fact that the tax rate, currently levied at $0.04 per $100 of assessed valuation, must be the same across the area served by CAWCD—Maricopa, Pinal, and Pima counties. This statutory restriction on tax rates results in significantly different amounts being collected across the three counties. The difference in collections is because the total net assessed valuation of property differs significantly between each county.

Table 1 shows how total net assessed value is distributed across the three counties of CAWCD.

<table>
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<tr>
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</thead>
<tbody>
<tr>
<td>Maricopa</td>
<td>78.2%</td>
<td>58.6%</td>
<td>$73</td>
<td>88.8%</td>
</tr>
<tr>
<td>Pinal</td>
<td>4.6%</td>
<td>9.1%</td>
<td>$57</td>
<td>85.4%</td>
</tr>
<tr>
<td>Pima</td>
<td>17.2%</td>
<td>32.3%</td>
<td>$114</td>
<td>51.8%</td>
</tr>
</tbody>
</table>

These statutory restrictions on their own would simply result in the relative amounts of water stored in the three counties resembling the distribution of net assessed valuation. On the surface, this appears to be logical as the amount of water stored for a shortage should be relative to the size of the population, roughly represented by net assessed valuation. However, the storage goal set for M&I firming by the AWBA is distributed across the three counties according to their relative M&I subcontract allocations. As can be seen in Table 1, the relative

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43 A.R.S. § 48-3715.02.B.
45 Tax is collected by county while LTSCs earned by storing water are accounted for by AMA. Maricopa County’s borders roughly correspond to the Phoenix AMA while Pima County’s borders roughly correspond to the Tucson AMA. The same goes for Pinal County and the Pinal AMA.
distributions of the firming goal and net assessed valuation do not match. These facts still do not explain the surplus in Maricopa County. Based on the two distributions, one would simply expect Maricopa to be significantly ahead of pace in achieving its water storage goal because more tax funds are collected relative to the size of its goal, but this is not the case. 48

The reason for this is that the amount of excess CAP water available for AWBA to store annually has been a limiting factor.49 As long-term subcontract holders have been purchasing larger shares of their allocations, the amount of excess CAP water has declined.50 Given the volumes of excess CAP water for AWBA, funding is the limiting factor in Pima and Pinal counties. Therefore, AWBA stores as much excess CAP water as funding allows in the Tucson and Pinal Active Management Areas (AMA) then stores any remaining excess in the Phoenix AMA.51 This remaining amount of excess CAP water has not been large enough for Maricopa County to utilize all of its annual water storage tax collections, which results in a growing surplus account.

In 2014, the Legislature helped ease the excess water availability constraint by allowing AWBA to purchase LTSCs in addition to earning them itself.52 This expanded authority is limited by an intergovernmental agreement (IGA) between AWBA, ADWR, and CAWCD stating that LTSC purchases can only be made with current year tax funds.53 Even with this expanded spending authority, investment interest on the surplus account and tax revenue growth driven by increasing property values means the Maricopa County surplus continues to grow.

USING THE SURPLUS

How to use the surplus of Maricopa County water storage tax funds has been the topic of much debate, particularly in 2013 surrounding the one-time $45 million use by CAWCD. The primary issue in the debate was the use of funds paid by Maricopa County taxpayers for the benefit of everyone in the CAP service area of Pima, Pinal, and Maricopa counties. While the relevant statutes are clear that funds not transferred to the Arizona water banking fund can be used for the benefit of the Project as a whole, many subcontractors held the position that such use of tax proceeds shortchanged Maricopa County taxpayers.

48 Despite similar net assessed valuation to M&I firming goal ratios, the Pinal AMA is significantly ahead of the Tucson AMA in achieving its M&I firming goal because the average cost to earn LTSCs in the Pinal AMA has been so much lower, as shown in Table 1.
52 Laws 2014, Ch. 126, § 4-7.
53 ADWR, AWBA, & CAWCD, [IGA] among [ADWR], [AWBA] and [CAWCD] Amendment No. 2, August 5, 2015, 6.2(e).
Since the one-time use of $45 million, CAWCD staff has suggested the Maricopa County surplus funds could be used to address other financial issues, taking into account the needs of AWBA.\textsuperscript{54} Regardless of any new proposal for using the surplus collections, satisfying AWBA’s storage goal for M&I firming in the Phoenix AMA is a priority. As of December 31, 2015, AWBA had fulfilled 88.8% of its Phoenix AMA goal with 175,994 acre-feet remaining to be stored.\textsuperscript{55,56} Calculations done by AMWUA suggest meeting the Phoenix AMA goal before 2027 could cost another $30-$60 million. This range depends largely on the availability of excess water, how long the goal takes to achieve, and how many LTSCs are purchased on the open market.

As explained earlier, annual resolutions approved by the CAWCD Board govern the use of water storage tax funds in any given year. Surplus funds through tax year 2009, amounting to $68.62 million, are dedicated solely for storing water for M&I firming by AWBA.\textsuperscript{57} While this dedicated amount should be enough to accomplish the Phoenix AMA M&I firming goal, CAWCD can also use funds from post-2009 resolution years for water banking activities, totaling $45.6 million. Furthermore, ongoing annual water storage tax collections are currently yielding roughly $15 million per year in Maricopa County alone.\textsuperscript{58} To date, the CAWCD Board has been able to honor every request for water storage tax funds by AWBA and there is no reason to expect they would not continue to do so.\textsuperscript{59}

Beginning in 2010, the CAWCD Board has approved broader resolution language for water storage tax funds to give it greater spending flexibility in addressing predicted outlays. The effort to extend the tax authorization past 2017 specifically noted that the tax funds would be used to help absorb significant new costs. Examples of these costs include those related to a shortage declaration on the Colorado River, replacing aging canal infrastructure; and NGS pollution controls, lease renewals, and eventual replacement.\textsuperscript{60,61}

To maintain the greatest amount of spending flexibility while ensuring AWBA requests are met, CAWCD staff expends older surplus funds under more specific resolutions first when AWBA makes a request to store water. Table 2 details how many surplus water storage tax funds collected in Maricopa County remain under each resolution as of June 30, 2016.

\textsuperscript{54} Central Arizona Water Conservation District, “Discussion and Possible Consideration of Action to Recommend that the Board Implement a Plan to Address the Deficit in the Strategic Reserves and Repayment Issue,” \textit{Board of Directors Action Brief}, February 18, 2016, 2.
\textsuperscript{57} \textit{Id}. at 10.
\textsuperscript{58} \textit{Id}. at 19.
\textsuperscript{60} \textit{Id}. at slides 15-18.
\textsuperscript{61} Central Arizona Water Conservation District, \textit{CAWCD’s 4-Cent Property Tax Extension of Levy Authority}, December 2014.
Table 2: Surplus Maricopa County Water Storage Tax Funds – June 30, 2016

<table>
<thead>
<tr>
<th>Tax Years</th>
<th>Amount ($,000)</th>
<th>CAWCD Board Resolution Directed Use</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006-2008</td>
<td>$45,057</td>
<td>&quot;[D]efray the annual [OM&amp;R] costs associated with the purchase of Project water by the [AWBA] for the purpose of firming [M&amp;I] water supplies and related [admin.] costs&quot;</td>
</tr>
<tr>
<td>2009</td>
<td>$23,165</td>
<td>&quot;[D]efray the annual operation, maintenance, and replacement costs related to underground storage&quot;</td>
</tr>
<tr>
<td>2010-2011</td>
<td>$3,617</td>
<td>&quot;[D]efray annual operation, maintenance, and replacement costs&quot;</td>
</tr>
<tr>
<td>2012-2015</td>
<td>$42,003</td>
<td>&quot;repayment of the construction costs or payment of the annual [OM&amp;R] costs of the Project&quot;</td>
</tr>
<tr>
<td>Total</td>
<td>$113,844</td>
<td></td>
</tr>
</tbody>
</table>

Table Notes:
(1) Amounts through June 2016 i.e., tax year 2015
(3) 2015 resolution added, "including underground storage for the purpose of M&I firming by the [AWBA]"
(4) Data provided by Doug Dunlap, CPA, Finance and Accounting Manager, CAWCD

Regarding significant new costs, CAWCD legal staff has recently ruled out one major potential use of water storage tax funds suggested during the tax extension effort—recovery infrastructure. AWBA has stored millions of acre-feet of water to firm or supplement delivery obligations during shortage. For much of the water stored, no recovery infrastructure exists to directly recover it. A prime example of this is the Tonopah Desert Recharge Project (TDRP) situated adjacent to the CAP canal west of the Phoenix metropolitan area. AWBA has stored nearly half-a-million acre-feet at TDRP but CAWCD has no means to directly recover this water. CAWCD has estimated recovery infrastructure, including water treatment facilities and power supplies at TDRP could cost $143 - $213 million.

CAWCD recently communicated that recovery infrastructure is not an authorized use of water storage tax funds because the phrase referring to such use was directly removed by the Legislature in 1996. However, CAWCD’s interpretation of the relevant statutes only relates to the direct use of water storage tax funds. CAWCD staff has indicated that it might still be possible to use water storage tax funds to help fund recovery infrastructure indirectly. For example, CAWCD could use water storage tax funds to pay the Fixed OM&R consideration and Pumping Energy incentives for agricultural users currently covered by the ten-cent general ad

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62 Tony Staffaroni, email message to the author, July 14, 2016.
65 Tony Staffaroni, email message to the author, July 20, 2016.
valorem tax, thereby freeing up ten-cent tax funds. The ten-cent general ad valorem tax has a number of statutorily authorized uses including paying for recovery infrastructure. While CAWCD General Manager Ted Cooke has said he and his staff are open to evaluating new ideas on how to use the funds, any proposed use Maricopa County water storage tax revenues is subject to CAWCD Board approval.

CONCLUSION

Meeting the current M&I firming goal for the Phoenix AMA is all but assured considering the existing surplus of Maricopa County water storage tax funds along with ongoing annual collections. After the firming goal has been met, there is likely to be a significant sum of funds that have not been committed to any particular cause. Arizona statute say the water storage tax can be used for repayment of CAWCD’s federal debt as well as annual OM&R costs of the Project. Plus, the water storage tax can be used to accomplish the AWBA’s mission even after firming goals it established are met. Such as, continuing to “protect Arizona [M&I] water users against future water shortages on the Colorado River and disruptions of operations of the [CAP]” should additional excess water becomes available in the future. All of this provides significant latitude when deciding how to use the water storage tax funds for the benefit of CAWCD and its customers.

For these uncommitted funds, there is no shortage of potential uses, as CAWCD has previously identified a number of large obligations on the horizon during the tax extension effort. As these obligations creep closer, it is becoming increasingly important for CAWCD to establish a plan for how the water storage tax funds will be spent. Absent a detailed plan, the temptation to use the funds to address short-term financial issues could keep them from being used to provide the maximum long-term benefit.

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CAWCD’s Water Storage Tax

Brett Fleck
May 25, 2017
What is it?

4-cent ad valorem property tax

Annual Tax Revenue

Millions

- $0
- $5
- $10
- $15
- $20
- $25
- $30

Who pays?

* Property owners within the **CAP service area**
  * Maricopa, Pinal, & Pima Counties
* Assessed annually since 1990
  * Pinal since 1994
What is it for?

**3.** authorized uses:

1. Federal debt repayment
2. Annual OM&R of CAP
3. Arizona water banking fund  
   * only in the county where collected
Brief History

1990 – Established to fund state demonstration projects
1994 – Expanded uses for CAWCD
1996 – Added funding authority for the AWBA
2003 – Protection from legislative sweeps

21. Arizona water banking fund (WCA 2110) $1,000,000.
2010 – Broader annual resolutions
2013 – First major non-storage use of funds ($45 million)
2015 – Authorization extension and Prop. 117

- 2012/2013 Underpayment Reconciliation $32,000,000
- Replenish Strategic Reserves $13,000,000
Accrued Maricopa Account Balance

* Current balance: $114 million

* Why does AMWUA care?
  1. Important CAWCD revenue source to defray rate increases
  2. Maricopa County property tax dollars

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<td>$114</td>
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</tbody>
</table>
Maricopa Account Balance

$114 million
Through Tax Year 2009
Per annual Board resolution

$68 million

Defray annual OM&R for water storage...AWBA
Tax Years 2010-2015
Per annual Board resolution

$46 million

Repayment or annual OM&R
Ongoing collections

- 2017 est. tax revenues: ~$19 million
- ~$15m from Maricopa County
- Tax authorization decreases to 3-cents in tax year 2025 through expiration in 2029
- Near-term collections in Pima and Pinal Counties are needed to meet AWBA’s M&I firming goal
- Additional revenues from Maricopa County have not yet been designated for a specific use
Three authorized uses

- Governed by CAWCD Board annual resolutions
- “Some Major Known Future Financial Obligations” --CAWCD
  - Colorado River shortage Fixed OM&R
  - Colorado River system augmentation efforts
  - CAP canal aging infrastructure ("Big R")
  - Recovery infrastructure and related needs
    - Cannot use directly for recovery; exchange with 10¢ tax
  - Replacement of SRP power sales revenue if NGS closes
A. Reaching Maricopa M&I firming goal should be a priority
   * $30-$60m to reach goal by 2026 (AMWUA estimate)
B. May be smart not to use it all, if Excess water becomes available in the future
C. Need a plan for the accumulated balance and ongoing collections
   * Without a plan, tempting to use for short-term issues
1. Water Storage Tax has evolved as needs changed
   * Use is not limited to water storage
2. Tax revenues can be used throughout the CAWCD service area*
3. AMWUA should be engaged in discussions on how to best use the accumulated balance and ongoing receipts to benefit CAWCD, particularly subcontractors in Maricopa County
Presentation of Paper about Reclaimed Water Issues

STRATEGIC PLAN REFERENCE

Objectives – Advocate for Solutions, Elevate the Benefit of Water Reuse
Collaboration – Water Community

SUMMARY

AMWUA’s annual plan includes the following action items:

• Complete a written analysis of managed recharge projects as a water management tool. Work with other regional organizations to consider a change to the current 50% credit allowed for managed effluent recharge projects.
• Pursue opportunities to increase positive public perception about water reuse.
• Engage and report about the activities of the Governor’s Water Augmentation Council and its committees.
• As discussions regarding financing, desalination, reuse, and other augmentation efforts occur, consider how AMWUA’s members can benefit and discuss recommendations AMWUA cities would like the GWAC to consider.

In addition, AMWUA’s strategic plan seeks opportunities to collaborate in the water community.

In an effort to work towards accomplishing these action items, AMWUA staff drafted a paper entitled Reclaimed Water: Terminology, 2025 Sunset, and Streambed “Managed” Recharge. This paper came about as a result of discussions with several water organizations. The Southern Arizona Water Users Association (SAWUA) had asked AMWUA to look into the issue of the percentage of credits received in managed recharge projects using reclaimed water. For a number of reasons discussed in the paper, this issue has been quite active in Southern Arizona. Also, the Arizona Department of Water Resources (ADWR) encouraged AMWUA staff to do an analysis of the issue.

The paper identifies three challenges in state statute relating to reclaimed water:

• Terminology: Arizona’s statues and administrative rules along within the water industry uses different terms – such as effluent, reclaimed, recycled, water reuse - to refer to the same type of water. AMWUA staff is of the opinion that state law should be changed to utilize a single term to help decrease confusion and improve messaging to the media and
the public. This becomes even more important as technology for treating reclaimed water improves and new and innovative uses of this resource become available.

- **2025 Sunset:** Under current law, no water user in the state will be able to accrue long-term storage credits with reclaimed water starting in 2025. While 2025 is less than eight years away, cities and other water users need more certainty going forward.

- **50 Percent Cut for Reclaimed Streambed Recharge:** Water recharge in Arizona occurs by several methods including spreading basins, aquifer storage and recovery (ASR) wells and vadose-zone wells. In addition to these methods, Arizona law allows water users to accrue long-term storage credits by discharging water in a normally dry river channel if ADWR designates it as a managed storage facility. Like constructed underground storage facilities, state law directs ADWR to give credits to an entity storing water at a managed facility at a rate of 95 percent of the recharged amount. However, there is an exception. If an entity stores reclaimed water in a managed facility, the law only allows the party storing the water 50 percent credit. This 50 percent cut, which under current practice mostly impacts users in the Tucson area, appears to be driving some water users to take reclaimed water out of Arizona’s rivers that rely on the water to flow.

In working with SAWUA, AMWUA staff plans to use the paper to encourage meaningful discussion among the Governor’s Water Augmentation Council as the Council discusses this and other issues relating to reclaimed water. The Council’s Recycled Water Committee introduced these issues at last month’s meeting and plans more in depth discussion in the future. The AMWUA paper will give the foundation a thorough deliberation on these items. The Recycled Water Committee intends to then make a recommendation to the full Governor’s Water Augmentation Council to consider how best to proceed including the possibility of proposing legislation.

Staff will present an overview of the paper, *Reclaimed Water: Terminology, 2025 Sunset, and Streambed ‘Managed’ Recharge.*

**RECOMMENDATION**

Staff proposes that the AMWUA Board of Directors discuss the issues the paper identifies and give staff direction on these issues as they proceed through the Governor’s Water Augmentation Council. Staff also recommends that the AMWUA Board of Directors approve the recommendation of the AMWUA Management Board from their May 10, 2017 meeting.

**ATTACHMENT**

- **Attachment A** – AMWUA Analysis: *Reclaimed Water: Terminology, 2025 Sunset, & Streambed “Managed” Recharge*
- **Attachment B** – AMWUA Presentation: *Reclaimed Water: Terminology, 2025 Sunset, & Streambed “Managed” Recharge*
The strategic use of reclaimed water is a key component of Arizona’s water policy. Since Arizona is largely an arid state, the reuse of water is central to ensuring the state continues its legacy of innovative water planning. While decades ago wastewater was viewed as a nuisance, today it is a valuable asset that cities and others use with care. For example, within the Central Arizona Project’s three-county service area, more than 95 percent of all wastewater is treated and put to use.\(^1\) Cities and water providers treat and transport this water for a variety of purposes, including farming, irrigation of parks, schools and golf courses, power generation, restoring riparian areas, and augmenting water supplies in aquifers for future drinking water supplies.\(^2\)

There is widespread agreement that this valuable resource matters for Arizona’s future. In fact, in 2010 the final report for the Governor’s Blue Ribbon Panel on Water Sustainability recognized that the reuse and storage of reclaimed water is vital in managing Arizona’s water supplies and meeting the goals of the Groundwater Management Act.\(^3\) The report outlined numerous ways water providers utilize reclaimed water to augment their water resource portfolios. A key challenge in the continued use of this resource is to enact policies that promote safe and effective reuse and increase public acceptance.

Even though Arizona has an innovative water reuse framework, the state’s statutes as currently written present at least three challenges for the state’s reclaimed water users. The first is how the law refers to reclaimed water. Arizona’s statutes and administrative rules in many cases use different terms to refer to reclaimed water. State law should be changed to utilize a single term. Uniformity among statutes, rules, and terminology by the state’s administrative agencies and water providers will help decrease confusion and improve messaging to the media and public about the role of reclaimed water.

Second, under current law no water user in the state will be able to accrue long-term storage credits with reclaimed water starting in 2025.\(^4\) While 2025 is less than 8 years away, cities and other water users must have certainty to engage in long-range planning and to make

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2 Id.

3 Governor’s Blue Ribbon Panel on Water Sustainability: Final Report, ADEQ, ACC, & ADWR, 7 (Nov. 30, 2010).

4 A.R.S. § 45-852.01(B); § 45-802.01(f).
the necessary investments for new reclaimed water storage projects. Recognizing the importance of storing reclaimed water, in 2014 ADWR recommended within its Strategic Vision to remove the 2025 sunset.\textsuperscript{5} Eliminating this provision will continue the incentive for cities and water users to store reclaimed water underground to augment aquifers.

Third, state statute currently imposes a 50 percent “cut to the aquifer” for putting reclaimed water in streambed “managed” recharge projects.\textsuperscript{6} A “cut to the aquifer” is water that the storing party cannot pump later because it stays in the ground for the benefit of the aquifer. Despite the multi-use and community benefits of managed projects, this 50 percent cut may drive certain water users to take reclaimed water out of some of Arizona’s rivers that rely on the water to flow.\textsuperscript{7}

The purpose of this paper is to discuss the history, context, and some of the implications of these provisions and practices, as well as reasons why discussion and further action may be appropriate.

**Terminology**

In the coming years, water users in Arizona will likely reuse water in new and innovative ways. This could include adopting technologies and practices that allow for the direct reuse of water for drinking water supplies and other purposes. For this to become a reality, the media and public will need to have a greater understanding about water reuse.

In order to engage the media and public about this issue, it is vital that the state’s administrative agencies and water users develop standard terminology. This will help in messaging the importance of this resource going forward. Currently, different administrative agencies in the state and even different state statutes use multiple terms to refer to the reuse of water. For example, water quality statutes that ADEQ administers use the term “reclaimed water,” while recharge statutes ADWR administers use the term “effluent.”\textsuperscript{8} Some entities and groups use a third term, “recycled water,” including the Governor’s Water Augmentation Council’s Recycled Water Committee.

This paper will use the term “reclaimed water.” However, beyond this paper a thoughtful discussion and decision needs to be made about what to call this resource to ensure greater understanding and acceptance from the public. Amending state statutes and rules to utilize a uniform term would go a long way towards achieving this objective.

**2025 Sunset**

\textsuperscript{5} ARIZ. DEP’T WATER RES., ARIZONA’S NEXT CENTURY: A STRATEGIC VISION FOR WATER SUPPLY SUSTAINABILITY 19, 70 (2014).
\textsuperscript{6} A.R.S. § 45-852.01 (C)(1).
\textsuperscript{7} See, e.g., Bureau of Reclamation, Final Environmental Assessment, 3 (August 2016).
\textsuperscript{8} See, e.g., A.R.S. § 45-101(4); 49-201(32).
Under current law, reclaimed water storage will not be eligible for long-term storage credit accrual beginning January 1, 2025. Removing the 2025 sunset for reclaimed water is good water policy for the state, as this change will incentivize continued augmentation of groundwater supplies. The state has recognized the importance of changing this policy. In 2014, ADWR’s *Strategic Vision for Water Supply Sustainability* included the removal of the 2025 sunset in the Department’s 10-year action plan.

The 2025 sunset is less than 8 years away. This creates some level of uncertainty as cities and water users plan and invest in future water storage projects for reclaimed water. AMWUA staff understands that multiple water users outside of the AMWUA cities are concerned about proceeding on specific recharge projects as a result of the 2025 sunset.

In addition to being good water policy, such a change will aid cities in utilizing their water beneficially. The state’s largest cities have spent enormous sums on pipes and infrastructure to deliver reclaimed water to golf courses, parks, large-scale development, and other water users. After meeting customer demands, many cities have additional reclaimed water to put to beneficial use by recharging it for later use.

**Managed Recharge Explained**

As currently written, Arizona’s statutes allow an entity that recharges reclaimed water underground to accrue “credits” for that water and later pump it from the aquifer. The ability to accrue long-term storage credits through the recharge of reclaimed water provides an incentive to augment groundwater supplies.

Water recharge in Arizona occurs by several methods including spreading basins, aquifer storage and recovery (ASR) wells and vadose-zone wells. In addition to these methods, Arizona law allows water users to accrue long-term storage credits by discharging water in a normally dry river channel if ADWR designates it as a managed storage facility. In order to accrue credits, the water must be eligible for recharge under state law, thus excluding naturally occurring storm flows. As seen in the chart below, there are currently six managed recharge projects in the state.

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9 A.R.S. § 45-852.01(B); § 45-802.01(f).
11 See A.R.S. § 45-852.01; § A.R.S. 45-834.01.
12 See A.R.S. § 45-852.01; § A.R.S. 45-834.01.
13 A.R.S. § 45-802.01.
14 See A.R.S. § 45-852.01; § 45-802.01(22).
Like constructed underground storage facilities, state law directs ADWR to give credits to an entity storing water at a managed facility at a rate of 95 percent of the recharged amount.\textsuperscript{15} However, there is an important exception. If an entity stores reclaimed water in a managed facility, the law only allows the party storing the water 50 percent credit.\textsuperscript{16} The law thus makes a distinction between reclaimed water and other types of water. As a point of reference, other categories of recharge have cuts to the aquifer in statute ranging from 10 percent to zero percent depending on the water type and other circumstances.\textsuperscript{17}

The legislative purpose behind the 50 percent provision was not based on hydrology. The Legislature included it in conjunction with other underground water storage provisions it passed in 1994.\textsuperscript{18} Based on discussions and interviews with ADWR staff and others, it appears that the 50 percent number was a legislative compromise between those that wanted 100 percent and those that wanted zero percent credit.\textsuperscript{19} One former ADWR employee suggested that ADWR promoted the 50 percent provision in order to incentivize deliberate, constructed recharge as opposed to riverbed discharge of water that was occurring anyway.\textsuperscript{20} Discharging treated wastewater into riverbeds was the practice for wastewater disposal in the early 1990s before the Legislature passed the law.

In addition to this 50 percent limitation, the law states that long-term storage credits from reclaimed water stored at a managed facility cannot be used to demonstrate an assured

\begin{table}[h]
\centering
\begin{tabular}{|c|c|c|c|c|c|c|c|c|}
\hline
Project Name & Location & Permit Holder & Annual Permitted Water Type & Length & 2015 Deliveries & 2014 & 2013 \\
\hline
Lower Santa Cruz & Santa Cruz River near Tucson & Tucson, Metro Water, Marana, Pima County, and others & 43,000 AF & Effluent & 17.91 mi & 32,150 & 30,261 & 15,624 \\
\hline
Santa Cruz & Santa Cruz River near Tucson & Tucson, Bureau of Reclamation & 9,307 AF & Effluent & 5.1 mi & 5,878 & 4,642 & 3,218 \\
\hline
Agua Fria Managed & Agua Fria River, Peoria & CAWCD & 100,000 AF & CAP & 4.04 mi & 12,288 & 9,726 & 15,631 \\
\hline
Hassayampa Managed & Western Phoenix AMA & Hassayampa Ventures & 50,000 AF & CAP & 33 mi & 3,564 & 0 & 0 \\
\hline
Casa Grande Managed & Casa Grande & City of Casa Grande & 3,500 AF & Effluent & 6 mi & 0 & 0 & N/A \\
\hline
Oldberg Dam & GRIC Reservation, Southern Phx. AMA & GRIC & 7,500 AF & CAP & 7 mi & 3,194 & N/A & N/A \\
\hline
\end{tabular}
\end{table}

\textsuperscript{15} A.R.S. § 45-852.01(C).
\textsuperscript{16} A.R.S. § 45-852.01 (C)(1). The one exception to this exception is if the effluent is stored at a managed facility that could add value to a national park, national monument, or state park—although it appears this provision has not been used before. See A.R.S. § 45-852.01(C). Based on discussions with entities in Southern Arizona, it does not appear likely that impacted entities will seek a monument or state/national park designation with respect to the Santa Cruz River.
\textsuperscript{17} A.R.S. § 45-852.01(C).
\textsuperscript{18} Session Laws 1994, Ch. 291, § 32.
\textsuperscript{19} Conversation with ADWR Staff (January 4, 2017).
\textsuperscript{20} Kathy Jacobs, Former Director of the Tucson AMA, Tucson-area Stakeholder Discussion Relating to Managed Recharge, Water Resources Research Center (March 17, 2017).
or adequate water supply. This provision may limit the market for these credits to buyers that have no need to develop an assured or adequate water supply, including the Water Bank and CAGRD.

The 50 percent limitation for reclaimed water impacts certain storers in particular, such as Tucson-area entities that have rights to reclaimed water discharged into the Santa Cruz River. The largest holders of this water include Tucson Water, the Secretary of Interior, Pima County, and Metro Water District. The City of Casa Grande also has a managed facility for reclaimed water, but it has not recently stored water there. Managed recharge currently occurs in the Phoenix AMA with Colorado River water, and is therefore unaffected by the 50 percent limitation.

While this analysis explores some of the impacts of increasing credit accrual at managed projects, this analysis does not advocate for a specific amount or percentage going forward.

Hydrology & Accounting

From a hydrologic perspective, dry riverbeds are often favorable locations for recharge. For this reason, several constructed spreading basins, including SRP’s GRUSP facility and others, are located at or near river channels. Although discharges into dry riverbeds are highly effective at recharging water, some hydrologists believe that constructed spreading basins function better at recharging water as slow moving water has more weight and pressure driving it into the ground.

The infiltration rates at managed recharge sites are highly variable. For example, in 2012 and 2014, the Lower Santa Cruz managed project recharged 25,500 and 31,000 acre-feet respectfully. This equates to a recharge rate of 52 and 68 percent of the total water delivered to the project in those years. However, in 2015, that number increased to 89 percent as a result of the increased water quality from the two renovated water treatment plants along the Santa Cruz River; water quality being one of many factors that influences recharge rates. Tucson Water estimates that the rate may even be higher now. In addition to water quality, other factors influencing recharge include clogging of river channels by biofilms and suspended

21 A.R.S. § 45-853.01. The one exception in the statute to this requirement is that credits may be used for an assured or adequate water supply if the water is stored at a facility that adds value to a national park, monument, or state park. Id.
22 Conversation with ADWR Staff (January 4, 2017).
23 Conversation with ADWR Staff (January 4, 2017).
24 Bureau of Reclamation, Final Environmental Assessment for the Construction of a Temporary Project to Reuse up to 7,000 Acre Feet Annually of Effluent at a Groundwater Savings Facility in Pima County [hereinafter “Final Environmental Assessment], 40 (August 2016).
25 Id. at 35-36, 40.
26 Conversation and Email Exchange with Tucson Water Staff (February 27, 2017).
particles, hydrogeologic properties of the stream, and the speed of stream flow. Infiltration rates can also increase as the result of the scouring of streambeds from large storm flows.

It is important to note ADWR’s accounting differentiates between water that a user delivers to a managed project, and water that is actually recharged into the ground. This means that ADWR ensures that only water that is recharged into the ground counts for purposes of credit accrual. Also, managed recharge projects can have greater losses than constructed projects because evapotranspiration rates often exceed the typical evaporation losses at constructed projects. ADWR’s calculations address such losses when accounting for water stored at managed projects.

ADWR’s accounting for managed recharge projects is different than other types of recharge. In fact, ADWR often uses different methods between the six managed projects across the state, depending on when they were permitted, operational considerations, and methods of measuring flows and evapotranspiration. However, for illustrative purposes, the nearby chart provides a simplified framework for how ADWR calculates credits. It is important to note that during rainstorms, ADWR does not calculate any recharge at managed sites due to difficulties in distinguishing between natural flows and reclaimed water.

The 50 percent cut to the aquifer for managed projects has the effect of decreasing the amount of credits the storing party can receive, thus making it a less efficient means of accruing credits. For example, Tucson Water has stated that for every 100 acre-feet of water it introduces into the Santa Cruz, it will usually get anywhere from 40 to 45 long-term storage credits after the applicable cut to the aquifer and other losses. The water that makes up the 50 percent cut is “gifted” to the aquifer, which in turn helps promote safe-yield in the AMA.

**Considerations**

Increasing the number of long-term storage credits that can be accrued through managed recharge will have the effect of increasing the incentive for more managed recharge in the state. It is important to understand the implications, considerations, and potential issues with using managed recharge as a water management tool.

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28 Id. at 35-36.
29 Conversation with Tucson Water Staff (February 27, 2017).
• **Multi-Purpose Uses:** The water that goes into a managed project supports multiple purposes—aquifer recharge and the environment. As has been shown at Gilbert’s Riparian Preserve, Phoenix’s Tres Rios, Chandler’s Veterans Oasis Park, and other locations, streambed recharge and constructed riparian recharge provide benefits beyond just getting water into the ground. These projects benefit the environment, wildlife, and the surrounding community. Often these projects attract economic and recreational opportunities.

The current 50 percent provision appears to be driving water users including the federal government to consider taking reclaimed water out of Arizona’s rivers.\(^\text{30}\) The current policy thus creates tension between the environment and water management when other approaches are possible.\(^\text{31}\) Water users must consider that there may be challenges to repurposing reclaimed water in the future if it is currently supporting riparian areas.

• **Lower Storage Costs & Ease of Maintenance:** Managed recharge projects are much less expensive to create and maintain than other forms of recharge. Within the Tucson AMA, after considering all capital and O&M costs, a managed facility can recharge water at a per acre-foot cost of $2.51. An equivalent cost in the Tucson AMA for constructed projects ranges from $140 to $191 an acre-foot.\(^\text{32}\) Unlike traditional spreading basins and other forms of recharge, managed projects require very little maintenance but may require more monitoring.\(^\text{33}\)

• **Constant Loading:** Wastewater treatment plants produce a relatively constant amount of reclaimed water that can be put to beneficial use. Use of reclaimed water for managed streambed recharge ensures that there is the opportunity for a more continuous flow into a storage project.

• **Distance Between Recharge & Recovery:** Managed recharge opportunities are limited to locations where there is a moderate-sized dry stream or riverbed. Many of these streams and riverbeds are not located where pumping of credits will occur, which in turn could complicate efforts to ensure recovery occurs in proximity to the location of storage.\(^\text{34}\) However, this issue is not unique to managed recharge projects as the hydrologic disconnect between storage and recovery occurs with constructed as well as managed facilities. Past efforts by ADWR and other stakeholders to address this complicated issue have yet to yield a consensus approach.\(^\text{35}\) It has

\(^{30}\) See, e.g., Bureau of Reclamation, *Final Environmental Assessment*, 3 (August 2016).
\(^{31}\) Tim Thomure, Director of Tucson Water, Tucson-area Stakeholder Discussion Relating to Managed Recharge, Water Resources Research Center (March 17, 2017).
\(^{32}\) Pima County Memo, *Intergovernmental Agreement with Cortaro-Marana Irrigation District (CMID) and the Bureau of Reclamation*, 4 (November 18, 2016).
\(^{33}\) Conversation with Tucson Water Staff (February 27, 2017).
\(^{34}\) Several parties have raised this as a primary concern in conversations about managed recharge.
\(^{35}\) Information about this effort in 2013 and 2014 to tie geographical recharge to recovery—known as Enhanced Aquifer Management—can be found on ADWR’s website: [http://www.azwater.gov/azdwr/WaterManagement/AMAs/EnhancedAquiferManagementStakeholderGroup.htm](http://www.azwater.gov/azdwr/WaterManagement/AMAs/EnhancedAquiferManagementStakeholderGroup.htm)
been suggested by some that if the Legislature changes the 50 percent limit to a higher percentage, consideration should be given to linking credit accrual at managed recharge sites to the future recovery of those credits.

- **Recovery of Stored Water:** A potential consequence of decreasing the 50 percent cut to the aquifer for managed projects occurs when the credits are later pumped. The net effect could be increased groundwater pumping, as a higher percentage of water could be withdrawn. This consequence must be weighed against the benefits of a change to the managed recharge statutes, including the community, economic, and environmental benefits of incentivizing innovative multi-faceted uses of water.

It is important to note that some argue that decreasing the cut to the aquifer for managed projects will not lead to increased mining of native groundwater per se, but will result in more recovery of stored water that cities and water providers purchased and imported. The water is thus an investment by a city or provider that provides a net benefit to the AMA.

- **Water Flow & Project Area:** Some water that is recharged in managed projects has the potential to flow out of the project’s designated area. This water cannot be counted for credit purposes but is beneficial to the environment and streamflow. In recent years water regularly flowed past the end of the Lower Santa Cruz River managed recharge project near Tucson. Recent upgrades to the two discharging water treatment plants have improved water quality and increased recharge rates, significantly decreasing any flow out of the project.\(^{36}\)

- **Wide Variability of Recharge Rates:** Infiltration rates at managed recharge projects can be unpredictable.\(^ {37}\) However, variability in recharge rates is an operational and planning issue that occurs in some form with all types of recharge projects. While maintenance can be performed to increase infiltration rates at constructed facilities, managed facilities often rely on large storm flows to clean the streambed and increase recharge rates.

- **Administrative Challenges:** Managed recharge projects are more onerous for ADWR to administer compared to constructed projects. This is due to the increased number of variables and factors that go into calculating recharge rates.

- **Recharge is Recharge:** Some have expressed the view that if an entity is actually getting water into the ground, the type of water and the method of recharge should not matter. With respect to aquifer storage, highly treated reclaimed water is just as effective as CAP water at replenishing aquifers, even if current law distinguishes the two types for credit accrual at managed facilities.

- **Policy Behind the 50 Percent Limitation:** Some parties, particularly those in southern Arizona, argue that the purpose of the 50 percent limitation was to provide an incentive to reuse

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\(^{36}\) Conversation with Tucson Water Staff (February 27, 2017).

reclaimed water instead of discharging it in a river channel. These parties assert that because reclaimed water in the region is now going to almost all possible uses with water to spare, there is a growing interest to keep water in rivers for environmental, economic and hydrologic purposes.

**Managed Recharge & Southern Arizona**

Over the past several years, nearly all of the reclaimed water discharged into managed recharge projects in the state occurred at the Santa Cruz River and Lower Santa Cruz River recharge projects in the Tucson AMA. The following chart shows which entities stored water in these two projects in 2015 and the relative percentages of ownership for the delivered water.

<table>
<thead>
<tr>
<th>Entities Storing in Santa Cruz Managed Projects in 2015</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bureau of Reclamation</td>
<td>69%</td>
</tr>
<tr>
<td>City of Tucson</td>
<td>21%</td>
</tr>
<tr>
<td>Metro Water</td>
<td>5%</td>
</tr>
<tr>
<td>Pima County</td>
<td>4%</td>
</tr>
<tr>
<td>Other</td>
<td>1%</td>
</tr>
<tr>
<td>Total</td>
<td>100%</td>
</tr>
</tbody>
</table>

In 2011 and 2012, Pima County looked at pursuing a legislative change to the managed recharge cut to the aquifer. Currently, there is growing interest to seek a multi-AMA coalition to address this issue in future legislative sessions, and possibly as soon as 2018. There appears to be momentum on this issue as it is being discussed within the Governor’s Water Augmentation Council.

As shown in the chart above, the party that the 50 percent limit impacts the most is the Department of Interior through the Bureau of Reclamation (“Reclamation”). Reclamation has an allocation of 28,200 acre-feet per year of reclaimed water in order to assist in meeting settlement obligations with the Tohono O’odham Nation. The transfer of this reclaimed water occurred as part of the Southern Arizona Water Settlement Act of 1992. Under the terms of the Arizona Water Settlements Act of 2004, Reclamation cannot deliver this reclaimed water directly to the Nation without the Nation’s prior written consent. The amended settlement...
further states that any revenues Reclamation receives from the sale or lease of this reclaimed water or resulting credits go toward the delivery of the Nation’s CAP water.\textsuperscript{45} As a result of this reality, it is important to recognize that changing the 50 percent limitation for managed recharge must be considered in the context of the agreements reached in the settlement.

Reclamation has made the strategic decision to recharge its reclaimed water in the Santa Cruz and sell the credits to fund delivery of the Nation’s 66,000 acre-foot CAP allocation, and also to firm the Nation’s NIA water.\textsuperscript{46} Reclamation currently pays about $4.5 million per year to deliver CAP water to the Nation, and at current rates Reclamation’s fund for the Nation could be depleted in four years.\textsuperscript{47}

Reclamation has stated that it “needs to find new ways to efficiently meet its firming obligations,” including finding ways to obtain 100 percent credit.\textsuperscript{48} Reclamation has stated that it will examine taking its reclaimed water out of the Santa Cruz to obtain more credit, although it prefers to leave water in the River.\textsuperscript{49}

Reclamation has been active in seeking solutions to get more value for its water. Over the past several years, Reclamation worked on a pilot project with Metro Water and Pima County to take 2,200 acre-feet of reclaimed water out of the River to send to the Cortaro-Marana Irrigation District, a nearby groundwater savings facility where the entities could obtain more credit.\textsuperscript{50} The agreement among the three parties contemplated an extension past the initial pilot phase of up to 7,000 acre-feet per year. As a result of pressure from local environmentalist groups and other factors, the Pima County Board of Supervisors ultimately modified the agreement by decreasing the amount of water and shortening the project duration, thus making the project uneconomical.\textsuperscript{51}

Reclamation has since stated that it will pursue other options to meet its obligations. There have been discussions among partners in southern Arizona about installing small check dams along the Santa Cruz that would act as water “speed bumps,” thus allowing the two projects to be classified as “constructed” facilities allowing for full credit accrual.\textsuperscript{52} However, Reclamation at this time does not see this as a viable path forward due to operational challenges and funding limitations for ongoing operations and maintenance for such a project. It is also important to note that in recent years Reclamation has had several conversations with state officials about the impacts of the law.

\textsuperscript{46} Bureau of Reclamation, \textit{Final Environmental Assessment}, 1-3 (August 2016).
\textsuperscript{47} Tony Davis, \textit{Santa Cruz Stretch Pitted Against Competing Water Needs}, Arizona Daily Star (February 27, 2016).
\textsuperscript{48} Bureau of Reclamation, \textit{Final Environmental Assessment}, 3 (August 2016).
\textsuperscript{49} Tony Davis, \textit{Feds Want to Pull Santa Cruz River Effluent to Pay O’odham Debt}, Arizona Daily Star (March 4, 2016).
\textsuperscript{50} See Pima County Memo, \textit{Intergovernmental Agreement with Cortaro-Marana Irrigation District (CMID) and the Bureau of Reclamation} (November 18, 2016).
\textsuperscript{51} Letter from Leslie Meyers of Bureau of Reclamation to Pima County Staff, \textit{Cortaro-Marana Irrigation District, Metropolitan Domestic Water Improvement District and Bureau of Reclamation Effluent Interconnect Pipeline Project} (Jan. 11, 2017).
\textsuperscript{52} \textit{Id.} at 5.
This issue impacts other water users in southern Arizona including the City of Tucson. Tucson Water has stated that it is already meeting demand for reclaimed water by all major potential users, and thus wants to find new ways to use its supply. As a result, Tucson Water is working with local stakeholders to look at putting effluent in the Santa Cruz riverbed near downtown Tucson. The goal of this initiative is to utilize more effluent, expand riparian habitat, store water, and spur economic development along that stretch of the River. Tucson Water refers to this initiative as “Agua Dulce.” In order to get the most value out of the proposal, the City has stated that it needs to get more credit for the water it will recharge at the proposed project.

**Tucson AMA-Specific Considerations**

In March of 2017, several Tucson AMA stakeholders met at the University of Arizona’s Water Resource Research Center to discuss the impacts of any change to the 50 percent policy. During that meeting, water users, academics, environmental activists, current and former ADWR staff, Reclamation staff, and other stakeholders discussed the issue at length. Among other things, those present discussed some of the fundamental assumptions that influenced ADWR and other decision makers in the early 1990s to implement the 50 percent requirement. Many of the assumptions have since changed. These assumptions include the following:

- **Groundwater Use:** At the time the Legislature passed the relevant statutes in 1994, Tucson had just recently obtained access to Colorado River supplies through the Central Arizona Project after decades of dependence on groundwater. Furthermore, ADWR staff had serious doubts about ever achieving safe yield in the Tucson AMA. Now, the Tucson AMA has had access to Colorado River water for over two decades, and in recent years has achieved safe yield.

- **Effect of Assured Water Supply Rules:** In 1994, ADWR was finalizing the Assured Water Supply rules in an effort to encourage use of renewable supplies. Now, as a result of the implementation of the rules and access to Colorado River water, groundwater levels in many parts of the Tucson AMA have recovered, even though localized areas of concern still exist.

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53 Conversation with Tucson Water Staff (February 27, 2017).
54 One of the participants, Kathy Jacobs, served as the Director of the Tucson AMA in the early 1990s when the Underground Water Storage provisions—including the 50 percent limitation for reclaimed water in manage projects—came into place. Many of the observations in this section come from her comments at the WRRC stakeholder meeting. Among other things, she observed that the decision to allow 50 percent credit accrual for effluent recharge was deliberate in an attempt to incentivize constructed recharge.
57 See Id. at 2-17.
• **Demand & Paradigm Shift:** ADWR staff in the early 1990s believed that demand for reclaimed water would continue to grow in the Tucson AMA, particularly for turf facilities such as golf courses. However, demand for reclaimed water is actually decreasing in the Tucson area.\(^{58}\)

Changes in water demand in the City of Tucson have resulted in a paradigm shift with respect to uses of reclaimed water. In 2012, Tucson Water updated its Recycled Water Master Plan.\(^{59}\) In 2012 Tucson Water’s projections showed that the city would need another source of water by 2040.\(^{60}\) Staff contemplated using reclaimed water in the future for potable reuse.\(^{61}\) However, around 2012 demand for reclaimed and potable water began to drop unexpectedly.\(^{62}\) As a result of these decreases in demand, Tucson Water is now exploring other options such as Agua Dulce that support economic development and riparian habitat.\(^{63}\)

The 50 percent cut to the aquifer for managed projects has undoubtedly contributed to Tucson’s safe-yield condition in recent years.\(^{64}\) However, at least for the Tucson AMA, many of the underlying assumptions from the early 1990s when the statutes were written have changed.

**Conclusion**

The AMWUA cities continue to promote the reuse of water. We believe now is the time to continue to advance the use of reclaimed water as an important source for augmenting groundwater and to support other valuable community, economic, and environmental purposes. As part of discussions about the future of reclaimed water, the AMWUA cities support efforts to have uniformity in terminology for reclaimed water, the elimination of the 2025 sunset, and consideration of increasing credit accrual for streambed recharge of reclaimed water.

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\(^{59}\) *Id.*

\(^{60}\) *Id.*

\(^{61}\) *Id.*

\(^{62}\) *Id.*

\(^{63}\) *Id.*

Appendix A: Phoenix AMA USFs
(Managed Projects are Dark Blue Lines)
Appendix B: Tucson AMA USFs
(Managed Projects are Red Lines)
Reclaimed Water: Terminology, 2025 Sunset, & Streambed “Managed” Recharge

AMWUA Board of Directors
May 25, 2017
Future Challenges

(1) Terminology
(2) 2025 Sunset
(3) Streambed “Managed” Recharge
Terminology

- Reuse Innovation
- Engage Public & Media
- Multiple Terms for Reuse
- Amend State Law
2025 Sunset

- No Credits from Reclaimed Water Starting in 2025
- ADWR’s 2014 Strategic Vision
- AMWUA Engaging GWAC
Managed Recharge

- Credit Accrual Through Recharge in ADWR-Designated Dry Riverbeds
- 50 Percent “Cut” for Reclaimed Water
- Legislative History
Hydrology & Accounting

- Riverbeds & Hydrology
- Infiltration Rates
- ADWR Accounting
Considerations

- Multi-Purpose Uses
- Lower Costs
- Constant Loading
- Recharge & Recovery Distance
- Recovery of Stored Water
- Water Flow & Project Area
- Variability in Recharge Rates
- Administrative Challenges
Southern Arizona Impact
Bureau of Reclamation
Past Efforts & Role of GWAC
Next Steps

• Vet Issues with GWAC

• Coordinate with SAWUA and Others on Advancing These Issues