

BOARD OF DIRECTORS

MEETING MINUTES

November 30, 2017

VOTING MEMBERS PRESENT

Mayor Cathy Carlat, Vice President, Peoria
Councilmember Eddie Cook, Gilbert
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

Councilmember Pat Dennis, Avondale
Councilmember Kevin Thompson, Mesa
Councilwoman Thelda Williams, President, Phoenix

OTHERS PRESENT

Anthony Alejandro, Peoria	Elise Kulik, The Aarons Co.
Gretchen Baumgardner, Tempe	Ryan Lee, Glendale
Cindy Blackmore, Avondale	Brad Lundahl, Scottsdale
Jessica Blazina, Avondale	Haley Paul, Gilbert
Rob Bohr, Goodyear	Brian Payne, AMWUA
Cynthia Campbell, Phoenix	Stuart Peckham, SRP
Gregg Capps, Chandler	Jessica Perry, Goodyear
Ted Cooke, CAP	Ryan Peters, Chandler
Brian Draper, Mesa	Kathy Rall, Scottsdale
Alan Dulaney, Peoria	Don Sehorn, DPS CPA
Doug Dunlap, CAP	Javier Setovich, Goodyear
Kathy Ferris, AMWUA via phone	Tony Staffaroni, CAP
Brett Fleck, AMWUA	Warren Tenney, AMWUA
Jim Holway, CAP	Theresa Ulmer, Ulmer Consulting
Lacey James, Avondale	Carol Ward-Morris, AMWUA
Sam Jaskolski, AMWUA	

A. Call to Order

Mayor Carlat called the meeting to order at 11:07 a.m.

B. General Business – Items for Discussion and Possible Action

1. Approval of the Minutes from the October 26, 2017 Meeting

Upon a motion by Councilmember Lopez and a second by Councilmember Kuby, the AMWUA Board of Directors unanimously approved the October 26, 2017 meeting minutes.

2. Next meeting scheduled: Thursday, January 25, 2018, 11:00 a.m., at the AMWUA office

The December 21, 2017 AMWUA Board of Directors meeting was cancelled; however, Mr. Tenney will keep the AMWUA Board apprised of any legislative updates.

The order of the agenda was altered by the AMWUA Board.

5. Municipal Contributions for Shortage Prevention

Mr. Fleck reviewed a presentation on Central Arizona Water Conservation District (CAWCD) forbearance and conservation programs. He highlighted that AMWUA members have contributed \$9.2 million from 2014 through 2017 through higher rates caused by the costs of voluntarily leaving water in Lake Mead and contributions to Basin-wide forbearance programs. Mr. Fleck noted that while AMWUA members have paid higher rates for their water due to these forbearance activities, the rates would be even higher if there was a shortage, so forbearance activities have been a good investment. He said individual ratepayers deserve some credit for their contributions and that rate effects should be part of every forbearance decision.

Councilmember Turner stated that conserved water is referred in acre-feet (AF) while the Lake Mead level is measured in feet of elevation. He asked how many feet in elevation of water has been forborne back to Lake Mead. Mr. Fleck said he believed somewhere between 10-20 feet in elevation has been conserved in Lake Mead, but he would confirm the exact amount and follow up with AMWUA Board. Councilmember Turner noted that the amount of water conserved by the AMWUA members is a contributing factor to what is keeping Lake Mead above 1,075 feet and forestalling a shortage. Mr. Fleck agreed but cautioned that AMWUA members' exact contributions to Lake Mead elevations would be very difficult to determine due to the structure of the programs.

Mayor Lane asked if there was a way to show how much money would have been spent on water per year overall based on historical deliveries if forbearance had not occurred

and shortage was declared. Councilmember Lopez echoed Mayor Lane's question and expressed interest in data on shortage-related cost avoidance. Mr. Fleck appreciated the question and said he would do the calculations and email his follow-up to the AMWUA Board.

Councilmember Lopez asked regarding the Pilot System Conservation Program if there was a correlation to the rate of return and the program's budget i.e., if the Program's budget was increased, would the amount of conservation attained per dollar change? Mr. Fleck said he could not confirm if the program would be just as successful if the program was larger.

Councilmember Kuby stated that she too was interested in looking into the cost avoidance of forbearance activities. She said the public often asks why they are being asked to conserve water while in return for saving water, water rates are going up. Councilmember Kuby noted the Alliance for Water Efficiency's cost avoidance study with Tucson Water, which found that costs would have been 11.7% higher if conservation did not occur. Mr. Fleck said that message is important to bring up because while rates are going up, they would have gone up much higher if water was not saved and a shortage was declared.

Councilmember Cook asked if there was a way to layer graphs showing the Lake Mead structural deficit along with the rainfall/snowfall per year to view any correlations. Mr. Fleck said those graphs could be made, but they are complicated by the relationship between Lake Powell's and Lake Mead's elevation levels. Mr. Fleck explained that in 2012, there was a jump in elevation but that was not entirely due to snowfall. He said that amount of snowfall did not necessarily flow into Lake Mead; some flowed into Lake Powell and then the relationship between the two Lake levels caused more water to be released from Lake Powell into Lake Mead, helping to bend the curve.

Councilmember Lopez and Mr. Fleck discussed that the amount of water released from Lake Powell into Lake Mead is decided in April and that the relationship between the amount of water released and runoff is not always direct.

Councilmember Turner stated that if AMWUA members saved 10 feet in elevation of water in Lake Mead through conservation, the AMWUA members would benefit because Lake Mead would stay above 1,075 feet, but so would everyone else. He then asked if Lake Mead were to fall below 1,075 feet, would AMWUA members get credit and be able to take back the 10 feet they conserved. Mr. Fleck said savings are not attributed to any particular user, so any water saved in Lake Mead is on behalf of the Central Arizona Project (CAP). He noted that of that water saved, some is system conservation, which is left in the Lake, and some is Intentionally Created Surplus (ICS), which could be taken back at a later time; however, it would be divvied up among all CAP users.

Mr. Tenney noted that through this analysis, AMWUA wanted to emphasize that forbearance has been a team effort throughout the CAWCD service area.

3. Governor's Water Solutions Conversation

Mayor Carlat welcomed Jim Holway, CAWCD Board Vice President, to join the AMWUA Board at the table for discussion.

Mr. Tenney stated that the Governor's Office is working to put together a legislative package based on the proposals that have been considered in the Governor's Water Solutions Conversation. He said AMWUA had been asked to identify which of the proposals are of most importance to the Association and, with input from the Water Resources Advisory Group (WRAG), AMWUA shared what was considered to be the highest priorities with the caveat that AMWUA's support for a legislative package is dependent upon the specific language and how the concepts interrelate. Mr. Tenney noted that the top priority is to protect Lake Mead from going into shortage by having the Drought Contingency Plan (DCP) and DCP Plus in place, including system conservation, Tribal Intentionally Created Surplus (ICS), having the State oversee system conservation and Tribal ICS, excess water, and having the State and the Central Arizona Water Conservation District (CAWCD) work together when excess water is available to protect the Lake. He said other priorities include:

- The State proposing clarifying language on how CAWCD annually decides the use of the 4-cent Water Storage Tax for repayment obligations and O&M costs, and then make the remainder available for the Arizona Water Banking Authority
- Having the Arizona Water Banking Authority be able to enter into agreements directly for recovery of long-term storage credits developed with 4-cent tax funds without distributing the credits first to CAWCD
- Addressing CAWCD's claim to sovereign immunity (which is consistent with the AMWUA Board's position)
- Addressing the importance of having the State take the lead on Colorado River negotiations
- Extending the State's groundwater management goals beyond 2025
- Eliminating the 2025 sunset on long-term storage credit creation from effluent recharge
- Addressing Assured Water Supply availability issues in the Pinal Active Management Area (AMA)

Mr. Jim Holway introduced himself and shared his history of working with water management in Arizona for 13 years at the Arizona Department of Water Resources and now in his current leadership role at CAWCD. He noted that in dealing with the difficult issues raised this year, it is important to keep the long-term view. He said we need to move beyond distractions and work on important water management issues that need

to be resolved. He pointed out that there's more than enough blame to go around the water community but also plenty of responsibility for all of us to fix it.

Mr. Holway agreed that the main issue to address is to fix the shortage challenges with the Colorado River. He noted that some of what he shares is based on the CAWCD Board's view, if the Board has expressed a position, and other statements are his personal views. Regarding Colorado River shortages, he said it is his opinion that we need a process by which we determine what volume of water needs to be left in Lake Mead each year and then try to hit that target. With that target, we then need to find out what each sector is willing to contribute in water and money. He said based on work that ADWR and CAWCD staff did, this year's target would be much lower. He believes CAWCD has done a great job leading previous efforts to conserve water in Lake Mead and agrees that it is a bigger game and there are entities who have not participated before or who are outside of the CAP service area that want to participate. He would like to see a broadly represented group make those decisions rather than just resting on one agency official. He said this group approach that CAWCD would be a part of would avoid a conflict of having the State take away CAWCD's federal contract authority to take any water left in the River. He said he sees this process working by having the group agree to the amount to leave in the River and CAWCD operationally handling and taking care of it.

Mr. Holway said another issue to address relates to the Central Arizona Groundwater Replenishment District (CAGR), which is a topic that he has long followed since his role at ADWR. He noted two distinct issues that need to be considered: one is operational, in having the CAGR be the mechanism to replace groundwater used by entities without access to supplies other than groundwater; and the second is functional, putting together a water portfolio to meet the operational need. He believes a number of CAWCD Board members are open to a conversation about how best to handle that role and would like to see that responsibility shared with others. He said this issue needs a robust conversation that cannot be done in the current rushed process.

Mr. Holway said the last issue he wanted to touch on is governance. He believes that "Arizona needs to speak with one voice on water" is a great sound bite that is not being appropriately applied. He said it is being applied as if one person decides and tells everyone else to follow. He believes a decision to speak with one voice should be made only after a robust debate. Mr. Holway noted that the CAWCD Board has made an official statement that ADWR is the lead for Arizona. He commented that being the lead means you facilitate, coordinate, and serve as the spokesperson. He is afraid that the current process is an effort to make ADWR the imperial dictator, which would not be good governance. He said Arizona has a history of the different stakeholders working out water issues without becoming partisan and today there are more stakeholders that want to be part of the debate. He worries that water is beginning to be made more political and would rather give the water community an opportunity to work through these issues.

Mayor Lane stated that he believes in the current water discussion, some points have become exaggerated making it harder to come together to focus on the important issues. He elaborated that CAWCD is a state agency developed by the Legislature and even with a federal contract, it is still a state agency representing a specific area. He questioned the negative use of terms, such as “imperial dictator” and calling the current process a political grab by the Governor. He advised shying away from such descriptions and showing greater respect to our governance structure. He believes the call for one voice for the State under the chief executive is legitimate. He pointed out that CAWCD has gone out to a number of elected officials to express their opinion, while the Governor’s group has been trying to work through the issues with stakeholders at the table, including CAWCD. He believes CAWCD’s claim to sovereign immunity remains an important challenge because it conflicts with the chief executive’s position and authority to exercise policy for the overall State. Mayor Lane noted that addressing these issues does not undercut what CAWCD has done well and that CAWCD remains very important as a provider of surface water. He said everybody on the Plenary Group and work groups are interested in resolving any conflict related with CAWCD and moving forward. He wants to make sure everyone is cognizant of not overstepping the Governor, and at the same time, coordinating and working with the Governor. Mayor Lane stated that the municipalities, tribes, and Governor’s Office have concerns about sovereign immunity and interstate transfer considerations and it is important to get passed this issue.

Mr. Holway responded that he appreciates the suggestion to use language to build partnerships rather than divide. He noted again that the CAWCD Board has made clear that it respects ADWR as the lead, though he feels we are better served by the entities managing water coming together and finding collaborative solutions. He said we have to be careful about giving too much policy authority to a bureaucratic agency, which ADWR is. He stated that in the past, the water community would come together and work these issues out and then go to the Legislature with a solution.

Mayor Lane said there was a lot of discord and debate with the Groundwater Management Act, but we worked it out. He noted that the current process is a tough road and it is important to keep our heads. He emphasized that no one has ever suggested undermining or disengaging CAWCD in this process.

Mr. Holway responded that he would rather focus on the big picture issues. He said he has been very public in saying that CAWCD needs to play better with others. He stated that perhaps CAWCD has been overly stubborn at times yet we are in a situation where basically a propaganda war is being waged against CAWCD. He said CAWCD has been lobbying elected officials and Legislators in defense against this propaganda war. Mr. Holway stated that while there is enough blame for everyone, it is important to focus on how to move passed this.

Mayor Lane asked Mr. Holway if he was saying that an active propaganda war was being held against CAWCD. Mr. Holway replied yes. Mayor Lane then questioned how the war is being funded.

Councilmember Cook stated that water is the most important resource we have in the State. He agreed with Mayor Lane that a single agency is needed for water policy for the entire State. He said CAWCD is a key component but a single policy mechanism from the State is needed and asked Mr. Holway if he agrees. Mr. Holway replied that he thinks the CAWCD Board record is agreeing with that. He said ADWR is the lead for the State and that he has incredible loyalty and belief in the role of that entity, though he is appalled at how he thinks ADWR played the game during this year. He gave the example that no one has come to the CAP Board to say we need to deal with things. Mr. Holway said there is a fine distinction between ADWR as the lead agency and being told to agree without having a conversation or debate.

Councilmember Lopez questioned if the root cause of the fight is that decisions are being made without hearing the voices of other water entities. Mr. Holway replied that CAWCD is one of the 800 pound gorillas in the water community that has always had a voice at the table.

Councilmember Lopez then asked if the need is to open more policy discussions and invite more entities to the table because over time entities have changed and now many entities feel they do not have enough input to the Governor and ADWR. He also asked if the tribes feel they have the input they need. Mr. Holway stated that many more stakeholders are involved now in water issues. He thinks CAWCD has done a good job managing the Colorado River to get us to where we are but things are changing. He said we need to collaborate and design how we move forward, including a process for determining how much water to leave in Lake Mead. Regarding the role tribes play, Mr. Holway said CAWCD and Reclamation are currently working on determining if tribes have an independent authority to create surplus or if they have to work through CAWCD as a section five contractor. He believes that these issues would have been worked out by now within the water community but the Governor's Office felt the need to step in and take over the process, which is in part the fault of CAWCD's and ADWR's behavior. He stated that no matter the process, it comes down to relationships.

Councilmember Lopez questioned how other states deal with water issues. Mr. Holway said it varies between states because there are different models. Mr. Tenney noted that each state has a complex way to manage its water. He said Arizona has attempted to do it more as a State and California has five different competing entities with Colorado River issues, which would not necessarily be a good model for Arizona. Councilmember Lopez agreed that we want a model that works. Mr. Tenney said the importance of Arizona staying coordinated and not fracturing like California has been emphasized in the Governor's Water Solutions Conversation along with the State wanting to make certain that when it comes to Colorado River issues, Arizona speaks with one voice led

by the State. Councilmember Lopez said it seems that the issue is that everyone would like to have a seat at the table to be heard and contribute to what is being said.

Councilmember Cook said he does not agree with the suggestion that ADWR is the final policymaker. He believes ADWR should and currently does take policy to the Legislature and then the Legislature makes the final decision. Mr. Tenney stated that the Governor's Office has emphasized that ADWR must respond to both the legislative branch and the executive branch. He said it is important to note that the Legislature and the Governor make the final decision on water issues impacting Arizona.

Councilmember Kuby stated that this process has been a bipartisan approach but she learned that many minority legislators have not been reached. She agrees with the need for centralizing the message but worries that a single voice might not include all stakeholders' views. Councilmember Kuby stated that the diversity of conversation has been a strength and expressed concern that the current process has not been diverse enough. She said it is not a weakness to have a robust conversation. She noted concern about the impact on water policy when the Governor and/or ADWR Director may change every four years. Councilmember Kuby said she liked the suggestion of a group assisting in decision-making on Colorado River issues. She would like to move beyond the fighting and accusations from both sides in order to best represent all water issues.

Regarding the bipartisan effort, Ms. Ulmer said that it is still early in the process and no legislative language has currently been proposed. She stated that the Governor's Office has been reaching out to legislators in leadership and to those on the water committees. She said the process may not be perfect but she believes it has been a broad coalition of folks and that the process will expand and broaden further when there is language introduced.

Mr. Tenney agreed that a broad diversity of interests in Arizona have been around the table. He said it is easy for folks to deflect from the water issues by raising questions about the process or motives, so the attempt has been to gather as much consensus as possible to move forward to the Legislature. Councilmember Kuby said we need to ensure that a diversity of stakeholders will always be part of the process continuing into the future and asked how do we institutionalize that aspect of the process.

Mayor Lane shared from the perspective of being on the Plenary Group that it is important for the Group to gather a consensus from as many of the stakeholders as possible and then formulate the language for legislation. He cautioned that having a larger group that includes every stakeholder would make it even more difficult to come to a consensus and create language. He stated that he thinks the Plenary Group and work groups are as diverse and as bipartisan as could have been mustered. He said he feels the process works and is moving forward and noted that the language created will also be further debated when it is brought to a wider audience in the Legislature.

Mr. Holway said the sovereign immunity issue is sensitive and complicated. He stated that the CAWCD has been very clear that whatever authority it may or may not have for sovereign immunity, it would never use that claim in any contract conversation or dispute with its subcontractors. He added that he would like find a way to make this position more binding if that would give folks comfort about future CAWCD Boards.

Mayor Lane questioned by what mechanism CAWCD was given sovereign immunity. Mr. Holway said there are cases in other states that would argue an arm of the State could have sovereign immunity. He stated that some attorneys have said sovereign immunity could never be used in a contract dispute and emphasized that the CAWCD Board has said it would never use it in a contract dispute. Mr. Holway noted that two weeks ago, the CAWCD Board President created a customer service task force and he believes receiving customer feedback in that process will help get at the issue ensuring the right kind of communication, relationships, and mechanisms.

4. CAWCD Rate Setting Policy

Mr. Tenney stated CAWCD is looking at updating its rate setting policy and at the Finance Committee meeting, language was proposed to have capital charges fully cover the annual federal debt repayment. AMWUA has been advocating its Board's position that taxes should continue to be used for CAWCD's federal debt repayment. He said AMWUA believes the rate setting policy should explain that the annual federal debt repayment should be set in conjunction with determining how to use taxes, capital charges, and the Basin Development Fund (BDF). He reported that the Finance Committee was scheduled to meet two weeks ago, but that meeting was postponed.

Councilmember Osborne thanked Mr. Holway for joining the AMWUA Board in conversation. She noted the importance of collaboration, the mutual concern amongst Arizonans to protect and plan for the future, and the impact of public perception resulting from the fighting within the State. Councilmember Osborne asked Mr. Holway how the CAWCD rate increase could be controlled by revenues that are current resources and asked about those conversations and different perspectives expressed.

Mr. Holway introduced CAP staff that were present in the audience: Ted Cooke, CAP General Manager; Doug Dunlap, CAP Financing & Accounting Manager; and Tony Staffaroni, CAP Public Policy Analyst. Mr. Holway distributed a handout detailing CAWCD's reserves. He said Mr. Tenney and an agricultural representative were invited to the CAP Finance, Audit, & Power (FAP) Committee's first conversation on rate setting policy to have an open conversation. Mr. Tenney gave further comments at the follow up meeting. Mr. Holway said Mr. Tenney has been talking individually with each member of the Committee and probably has a better sense of how the Committee feels on this issue than he does since open meeting laws keep him from talking with Committee members. Mr. Holway reported that the December meeting was cancelled due to quorum conflicts but the hope is that the Committee will resolve the issue in

January. Regarding his view, Mr. Holway said he believes rates should reflect the full cost of water because it is a scarce resource and pricing is the best economic signal we can send. He sees municipal water utilities as enterprise units that fully cover their cost and not by using general fund revenues to underwrite water rates and thinks CAWCD should do the same. He noted that CAWCD's rates have different components, including one that is just for day-to-day operations. Mr. Holway said the debate has been over the capital charge, which is the rate component to pay the annual \$55 million federal debt to build the canal. To pay the federal debt, CAWCD can use the capital charge or one or both of CAWCD's property taxes. He said in previous years, the debt has been mostly covered by the Basin Development Fund, which was funded by surplus energy sales from the Navajo Generating Station (NGS); however, the closure of NGS leaves a much smaller amount in the Basin Development Fund requiring CAWCD to primarily rely on capital charges and taxes to cover the federal debt. Mr. Holway feels that the rate setting policy should give clear guidance to minimize confusion. He stated that the current draft of the rate setting policy says the Basin Development Fund should be used first and then municipal rates should have a capital charge to cover their share of the debt. Mr. Tenney has suggested alternative language so the debt repayment does not fall solely into municipal rates. Mr. Holway noted that the Committee could compromise on the language.

Councilmember Cook asked why CAWCD would not take advantage of its authority to use property taxes. Speaking for himself, Mr. Holway said CAWCD should not subsidize water rates for a scarce resource, but rather charge what it costs and send that economic signal.

Councilmember Cook asked if Mr. Holway was saying you should pay as you use it. Mr. Holway said yes and expressed that he thinks that is what most cities do. Mr. Holway stated that there could be situations in which having flexibility would be important, for example having expensive rates in order to decommission NGS. He said the current proposal for decommissioning would use CAWCD's tax authority. He noted that over time, property taxes have supported CAWCD's operations, such as in 2013 when taxes were used to reconcile rates. Mr. Holway said the CAWCD Board has the option to use whatever portion of the property tax it chooses and the rate setting policy is meant to provide annual guidance. Regarding other reserves, Mr. Holway added that CAWCD is currently \$60 million under its strategic reserves target of \$220 million, which is why rates were increased in 2016 when the Board became aware of the deficit.

Mayor Carlat asked to clarify if there is currently a policy on rates. Mr. Holway replied that there is a rate policy but it does not give specific guidance. He said CAWCD is primarily guided by the contracts with subcontractors, which state that CAWCD's operations, maintenance and energy are built into rates, but there are no specific guidelines for the capital repayment and he would like to make that aspect clearer in the rate setting policy.

Mayor Carlat asked if Mr. Holway is leaning towards creating a policy that says Municipal and Industrial (M&I) users pay for all capital repayment. Mr. Holway said that is his personal view and he would like a clear policy in place to give guidance for whatever is settled.

Mayor Carlat asked about AMWUA's input on that policy. Mr. Tenney said AMWUA's position has been that all revenue sources should be considered when the CAWCD Board is looking at rates and the federal debt repayment. He added that with half of the debt still to be repaid, the policy should not say that capital charges fully recover the annual federal debt repayment because the building of the canal has benefitted everyone in the three-county area, not just municipal providers.

Mayor Carlat stated that from the AMWUA Board's perspective, there is agreement that we do not want a policy created in which the federal debt repayment is focused on the backs of the cities.

Mr. Holway said he understood Mayor Carlat, but this issue may be left as an agreement to disagree on whether water rates should be full cost pricing. He noted that he had many open conversations about this issue with Mr. Tenney and they still have to agree to disagree. Mr. Holway said he does not know how the full CAWCD Board views full cost recovery, but noted that the Board does have concern about depleting reserves and wants them to be replenished.

Councilmember Cook stated that municipalities have to go out to bond and allow voters to decide on large capital projects. He said CAWCD does not have that requirement for their large capital projects. Mr. Holway noted that CAWCD may go out to bond in the future with possible canal expansions.

Councilmember Turner questioned how CAWCD sets its target levels for its strategic reserve and what outside confirmation is used to gauge that the target level is appropriate. Mr. Dunlap said an analysis is done annually on the strategic reserve targets by using guidance from the Government Finance Officers Association (GFOAs). He noted that some reserves are very specific based on contractual requirements, such as the federal stipulation to have \$40 million reserved to make the annual repayment, while other reserves have their own methodology to determine the target. He said each reserve has specific requirements on how and when they can be used.

Councilmember Turner said while he understands that setting the reserve targets is a Board decision, most cities get outside advice on what that target should be. Mr. Dunlap replied that when CAWCD did a bond issue a couple of years ago, bond advisors looked closely at the reserve targets. He said even though reserves were below the target, the bond rating agencies were comfortable knowing CAWCD had a path to reach those targets. He said that path involves capital charges since water delivery rates are reconciled.

Councilmember Turner stated that when the city sets reserve targets, the bond rating agencies care less about how high the target is and more about how low it is set. He said the question that is sometimes raised about CAWCD is whether the reserve targets are set higher than they need to be. Mr. Dunlap responded that each entity is unique and it is a judgment after using external sources. He said CAWCD is a single-purpose entity that cannot go anywhere else to pull money from in an emergency and the canal cannot be insured by itself because the cost would be astronomical. Mr. Holway added that he questions staff on how well CAWCD compares to other similar water delivery facilities.

Mayor Lane asked if there was a reserve for when CAWCD had a deficit because of a loss in the surplus energy market a few years ago. Mr. Dunlap said there was a huge loss on the surplus energy side in 2013 that resulted in more money owed on the federal debt and the energy rate had issues. He stated that CAWCD utilized accumulated monies in the water storage tax to make the repayment shortfall and to avoid having to do a major rate reconciliation with its subcontractors. Mayor Carlat asked to clarify if the monies utilized were the four-cent tax. Mr. Dunlap confirmed and added that reserves are made up from taxes.

Mayor Carlat thanked Mr. Holway for attending and answering all of the AMWUA Board's questions. Mr. Holway said he and staff are happy to come anytime. He added that he hopes the CAWCD customer service task force will deal with some of the issues that are still lingering to make the situation as good as it can be.

6. [Recommendation for 2018 Board Officers](#)

Councilmember Kuby spoke on behalf of the Nominating Committee, (Councilwoman Williams, Councilmember Osborne, and herself) to announce their agreement to recommend Mayor Jim Lane as President, Councilmember Eddie Cook as Vice President, and Mayor Cathy Carlat, as Secretary-Treasurer, to the AMWUA Board of Directors for 2018, in accordance with the AMWUA Bylaws.

Upon a motion by Councilmember Kuby and a second, the AMWUA Board of Directors unanimously approved the Nominating Committee's recommendation for Mayor Jim Lane of Scottsdale to serve as President, Councilmember Eddie Cook of Gilbert to serve as Vice President, and Mayor Cathy Carlat of Peoria to serve as Secretary-Treasurer to the AMWUA Board of Directors for 2018.

7. [AMWUA Annual Financial Audit Report for Fiscal Year 2017](#)

Mr. Tenney stated that the independent accounting firm of Heinfeld, Meech & Co. has issued the audit for AMWUA's Fiscal Year 2017 finances. He reported that the opinion of the auditors is that AMWUA is in good financial standing and noted that the accompanying communication letter from the auditors to the AMWUA Board states that

no significant findings were made. At the November 8th meeting, the AMWUA Management Board unanimously recommended that the AMWUA Board accept the audit report as presented.

Upon a motion by Councilmember Turner and a second by Mayor Lane, the AMWUA Board of Directors unanimously accepted the audit report as presented.

8. AMWUA Quarterly Financial Statements – First Quarter

Mr. Tenney reported that AMWUA's financial statements for the first quarter of Fiscal Year 2018 show that AMWUA is operating under budget by about \$11,700. At the November 8th meeting, the AMWUA Management Board unanimously recommended that the AMWUA Board accept the quarterly financial statements as presented.

Upon a motion by Councilmember Osborne and a second by Mayor Lane, the AMWUA Board of Directors unanimously accepted the quarterly financial statements as presented.

C. **Executive Director's Report**

Mr. Tenney stated that the Water Quality Group that AMWUA has been facilitating has now met twice with CAWCD and Reclamation staff to review the Group's proposal for how to set water quality standards for non-project water in the CAP canal. He said, to date, the discussions with staff have been positive. He noted that on Tuesday, CAWCD discussed how they are looking at doing the modeling for water quality. He also said CAWCD and Reclamation each plan to look internally at how to build upon the proposal that the Group has drafted. Mr. Tenney stated that the Water Quality Group, CAWCD, and Reclamation will meet again in January.

Mr. Tenney stated that last month, the AMWUA Board approved a proposal that the CAWCD Board should have a full, complete accounting of all excess water that becomes available during the year. He said the Environmental Defense Fund (EDF) submitted a similar proposal, which included a recommendation on how excess water could be used during a shortage. He stated that CAWCD staff and two CAWCD Board members met with AMWUA and EDF staff to discuss their proposals. He noted that CAWCD was responsive to the proposals and discussed how they could create a more transparent accounting of all of their water deliveries, the operation of Lake Pleasant, and excess water. He said AMWUA provided feedback to their ideas and plan to meet again next week.

Mr. Tenney noted that AMWUA will keep the Board and member staffs informed of any new developments on the Governor's Water Solutions Conversation. He also stated that he was available to meet with AMWUA Board members, their fellow councilmembers, staff, or anyone else to assist in answering questions and providing clarification to these issues.

D. Future Agenda Items

There were no requests for future agenda items.

E. Adjournment

With no further items to discuss, Mayor Carlat adjourned the meeting at 1:05 p.m.