



YOUR WATER. YOUR FUTURE.

Financial Impacts of Shortage

Shortage Workshop
April 22, 2015

Financial Impacts of Shortage

- Impact on CAP Water Delivery Rates
- Use of CAP General Ad Valorem (10-cent) Property Tax Revenues

Impact on CAP Water Delivery Rates

- Shortage will impact CAP Water Delivery Rates
 - Primarily impacts Fixed OM&R Rate due to absorption of fixed costs over a lower number of units (AF) delivered
 - Some impact to CAP Energy Rate as well due to fixed costs at Hoover Dam
- Rate = Cost ÷ Volume

Impact on CAP Water Delivery Rates

Tier 1 Shortage

- 320,000 AF \approx 20% reduction in diversions and deliveries
- 20% reduction in diversions will result in a 25% increase in the Fixed OM&R Rate
 - E.g., 2016 Fixed OM&R Rate would become \$103/ AF versus the published (non-shortage) rate of \$83/AF

Impact on CAP Water Delivery Rates

Tier 2 Shortage

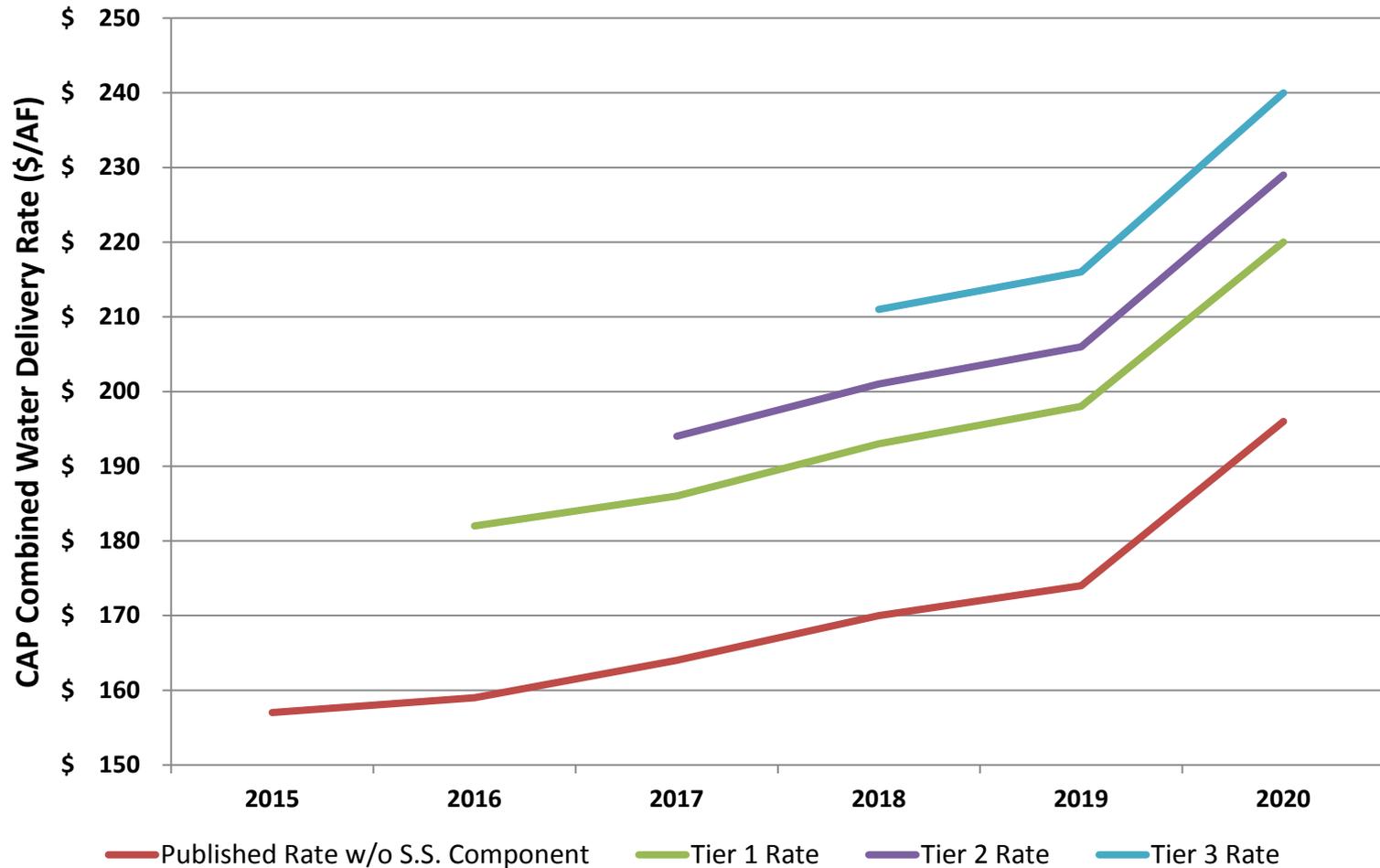
- 400,000 AF \approx 25% reduction in diversions and deliveries
- 25% reduction in diversions will result in a 33% increase in the Fixed OM&R Rate
 - E.g., 2017 Fixed OM&R Rate would become \$113/ AF versus the published (non-shortage) rate of \$85/AF

Impact on CAP Water Delivery Rates

Tier 3 Shortage

- 480,000 AF \approx 30% reduction in diversions and deliveries
- 30% reduction in diversions will result in a 43% increase in the Fixed OM&R Rate
 - E.g., 2018 Fixed OM&R Rate would become \$127/ AF versus the published (non-shortage) rate of \$89/AF

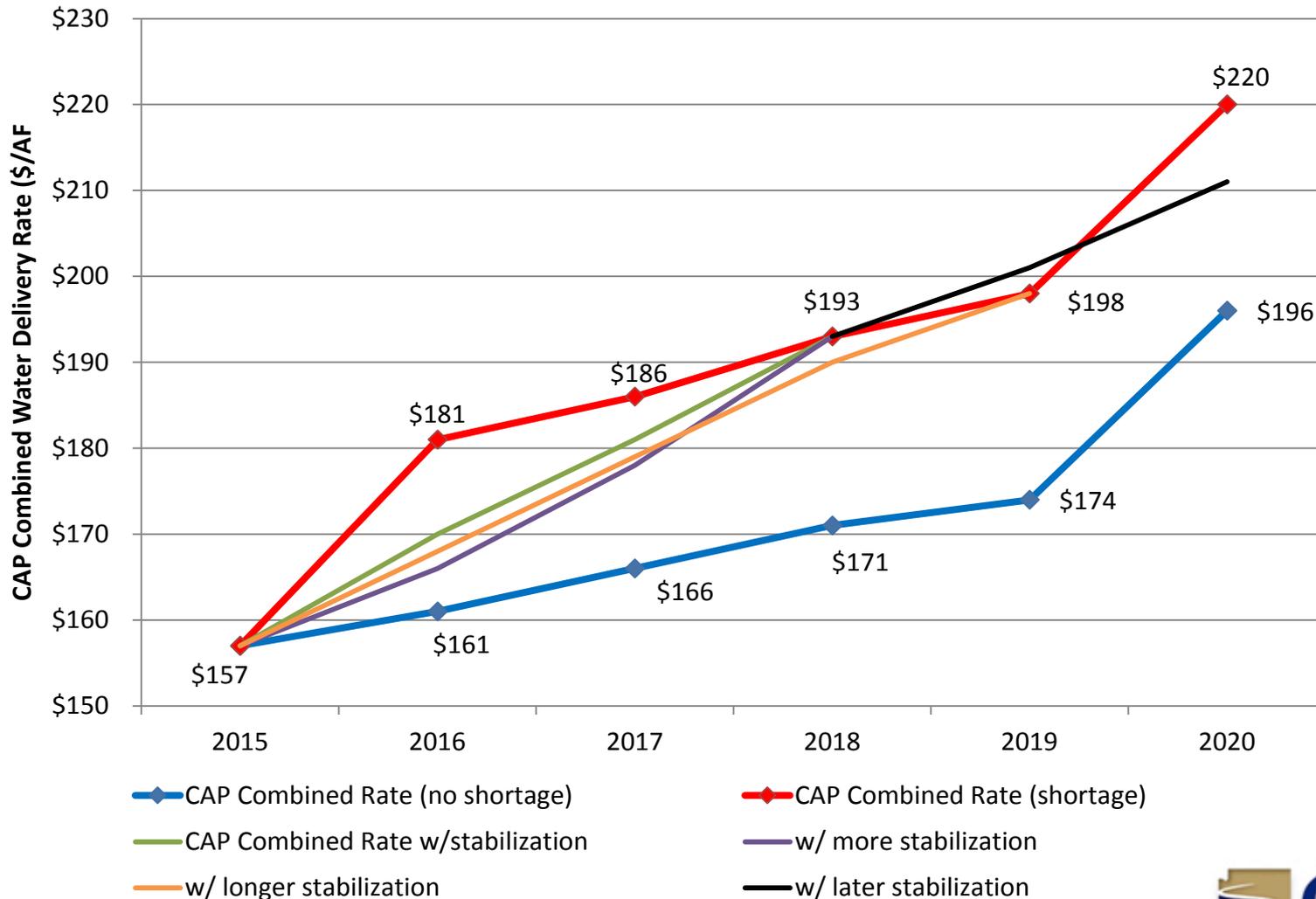
Impact on CAP Water Delivery Rates



CAP Water Rate Mitigation Measures

- Shortage Stabilization Fund (\$19-27 million depending on timing of shortage) – includes all CAP ratepayers of Fixed OM&R
- 2014 Supplemental Shortage Stabilization Program (up to \$10 million) – includes customers who opt-in to this program
- Remaining SO₂ Credit Reserves (~\$7.5 Million)

Rate Stabilization Options (2016 Shortage)



Use of CAP General Ad Valorem Property Tax Revenues

History

- CAP is authorized to collect a General Ad Valorem property tax up to 10 cents per \$100 of assessed valuation
 - May be used for any authorized purpose except as a pledge towards repayment of revenue bonds
- In 2007, the General Ad Valorem tax rate was reduced from 8 cents to 6 cents
- Since that time, all of the 6 cents collected has been dedicated to the CAP Ag Pool Program
 - In recent years, the cost of the Ag Program has exceeded the 6 cents collected, in which case the difference has come out of CAP General Fund Strategic Reserves

Use of CAP General Ad Valorem Property Tax Revenues

History

- In 2013, the General Ad Valorem tax rate was increased to 10 cents – the additional 4 cents is dedicated to a “Future Extraordinary Cost Reserve” that is separate from the Strategic Reserves
- In 2017, as part of the Arizona Water Settlements, the CAP Ag Pool is scheduled to decline from 400,000 acre-feet per year to 300,000 acre-feet
 - This decline will reduce the cost of the Ag Program to be more in line with the amount collected from 6 cents of the General Ad Valorem property tax levy

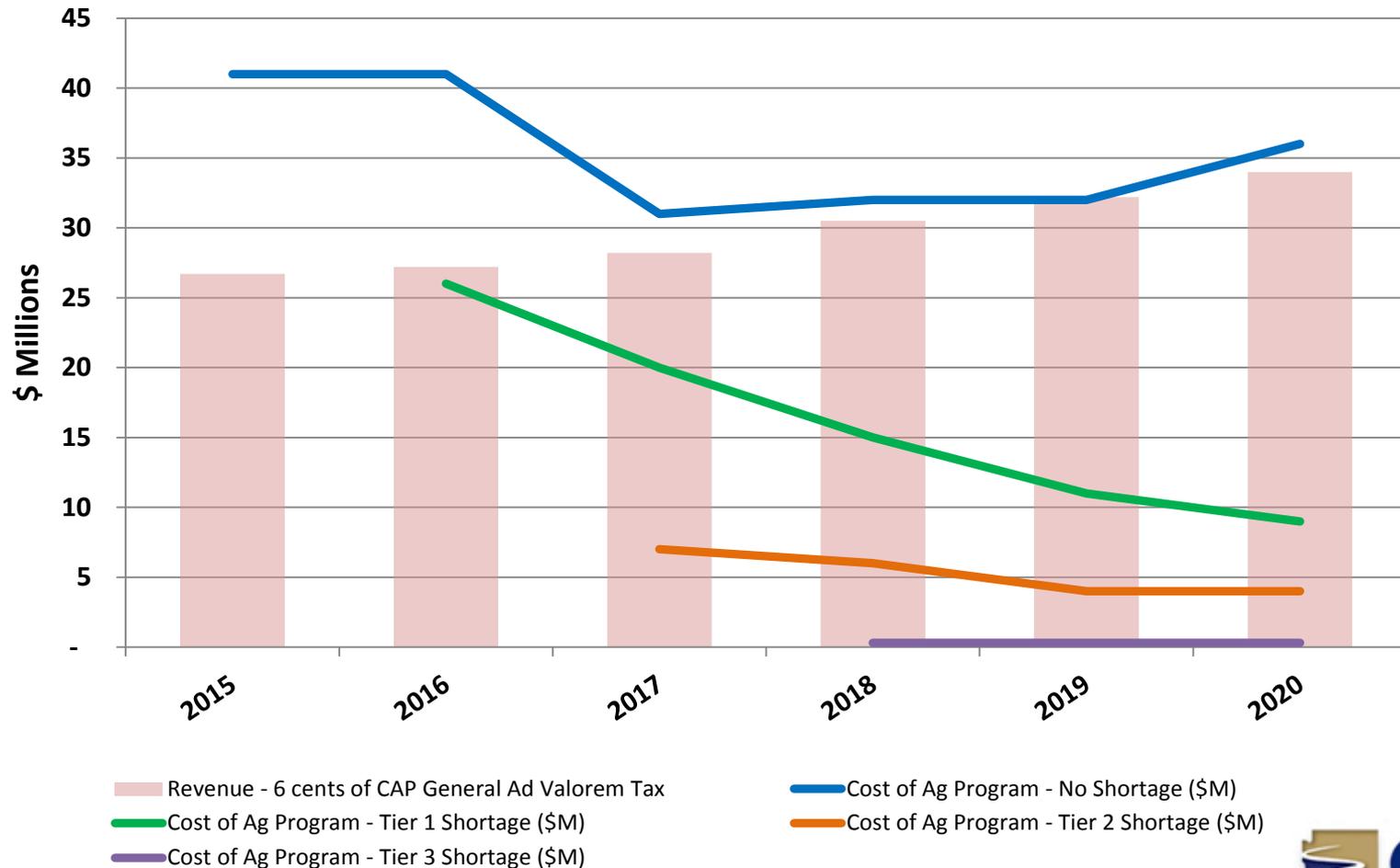
Use of CAP General Ad Valorem Property Tax Revenues

Near-Term Shortage Assumptions

- Tier 1 Shortage will reduce the Ag Pool to ~200,000 AF or less
- Tier 2 Shortage will reduce the Ag Pool to ~75,000 AF or less
- Tier 3 Shortage will eliminate the Ag Pool
- Since the amount of Ag Pool water delivered will decline during shortage, the amount of General Ad Valorem Property Tax needed to support the costs of the CAP Ag Program will also decline

Use of CAP General Ad Valorem Property Tax Revenues

Property Tax Revenues vs. Ag Program Needs



Impact on CAP Property Taxes

Potential Uses for CAP General Ad Valorem Tax Revenues

- Recovery infrastructure
- Improve Colorado River long-term reliability
- Restore CAP Strategic Reserves to target
- Increase “Future Extraordinary Cost Reserve”
- Provide Water Delivery Rate assistance
- Reduce tax rate
- Other??

Ultimately a CAP Board decision