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## **Non-Indian Ag Reallocation CAP Acquisition Pricing Methodology**

For water users interested in obtaining a subcontract allocation under ADWR's reallocation of Non-Indian Agricultural Priority water, there will be an acquisition cost comprised of several elements:

- 9(d) Debt Component
- Back Capital Charges Component
- Back Property Tax Equivalency Component (applicable only to allocations made to users outside of the CAP three-county service area)
- Supply Availability Charge

Each of these price components is discussed in more detail below.

### **9(d) Debt Component**

As part of the CAP Repayment Settlement and the Arizona Water Settlement Agreement, non-Indian agricultural subcontractors relinquished their long-term rights to CAP water. This relinquishment made water available for, among other things, the 96,295 acre-feet to be reallocated under this NIA Reallocation process. As part of the consideration for the relinquishment, Ag subcontractors were relieved of certain 9(d) debt obligations to the United States. Part of this relief was in the form of debt forgiveness by the United States, and part of the relief was the assumption of a portion of the debt (\$88.7 million) by CAWCD. Under this arrangement, CAWCD will begin making scheduled 9(d) debt payments in 2026.

CAWCD will fund its 9(d) debt obligation by attaching a 9(d) debt service price component to each acre-foot of reallocated NIA water. The proceeds of the 9(d) debt component will be deposited into a "sinking fund," which will, in combination with interest earned on such deposits, provide the necessary funds to meet the debt obligation. The 9(d) debt price component is "levelized" such that the price component for later reallocations is equivalent to the price component for earlier reallocations plus anticipated interest. The intent of the sinking fund is to maintain a neutral net cost impact to CAWCD between 9(d)

price component payments and interest coming in and 9(d) debt payments going out. Interest earnings are estimated and the 9(d) debt component for subsequent reallocations may need to be adjusted from earlier reallocations depending on actual interest earnings.

The preliminary amount of the 9(d) debt price component for the 2014 NIA reallocation is estimated to be \$389/acre-foot. This amount is based in part on estimates and may change up to the time of the actual NIA reallocation effective date.

### **Back Capital Charges Component**

When the Central Arizona Project was declared substantially complete in September 1993, the amortization of the CAWCD repayment obligation to the United States began. An installment payment on the repayment debt is due from CAWCD each year. The repayment is financed by three sources of revenue: surplus power sales from the operation of the United States' share of the Navajo Generating Station, capital charges paid by CAP water subcontractors and *ad valorem* property taxes paid by taxpayers in CAWCD's three-county service area.

In the CAP repayment model, water is divided into three classifications:

- Federal – this water has no CAWCD repayment obligation
- Irrigation – this water has an interest-free repayment obligation component and a nominal (\$2/acre-foot) subcontract capital charge.
- M&I – this water has an interest-bearing repayment obligation component and is subject to the capital charge set by the CAWCD Board of Directors

As part of the Arizona Water Settlement Agreement, all Irrigation (Ag) subcontracts were ultimately relinquished. However, a non-interest-bearing portion of the repayment obligation remained, associated with the Ag settlement pool that was established as part of the settlement. All other non-Federal CAP water, including non-Indian Ag to be reallocated, was assumed in the repayment model to be interest-bearing and subject to the M&I capital charge.

The M&I capital charge is applicable to every acre-foot of allocated non-Federal, non-Irrigation water over the entire CAP repayment period. Consequently, every such acre-foot of water that is initially allocated or reallocated carries with it a charge of the accumulated assessed M&I capital charges since repayment began, plus accrued interest.

The ADWR NIA reallocation is the initial allocation of the 96,295 acre-feet of NIA water, so each acre-foot of water carries cumulative M&I capital charges and interest from October 1993 plus interest through the date of the reallocation. The amounts due have been calculated based on the M&I capital charges set by the CAWCD Board, interest at the weighted average interest rate earned by CAWCD on its investments with the Arizona State Treasurer and the semi-annual payment due dates for capital charges of June 1 and December 1.

The preliminary amount of the back capital charges price component for the 2014 NIA reallocation is estimated to be \$899/acre-foot. This amount is based in part on estimates and may change up to the time of the actual NIA reallocation effective date.

### **Back Property Tax Equivalency Component**

Under Arizona Revised Statutes §48-3715.B, deliveries of CAP water outside of the three-county CAP service area are subject to a property tax equivalency charge each year based on a three-year rolling average of the property taxes collected per acre-foot delivered. The language of the statute is as follows:

**A.R.S. 48-3715.B.** The district board shall charge and collect a fee in lieu of taxes paid pursuant to subsection A for each acre-foot of central Arizona project water purchased or leased and delivered to or credited to a purchaser or lessee. The amount of this fee shall be computed by dividing the sum of the taxes levied in each county within the district pursuant to subsection A in the previous year in which the fee is charged by the average annual amount of Colorado river water delivered through the central Arizona project system for nonfederal municipal and industrial and agricultural use over the previous three years. This fee does not apply to:

1. Indian tribes with respect to water used directly on Indian reservation land in this state or on land owned in this state by the Indian tribe.
2. Water service providers whose customers are real property owners within the service area of the district and who pay the tax levied pursuant to subsection A. For purposes of this paragraph, "water service provider" means any person that has any obligation or duty of any nature to deliver water within the district's service area.
3. Persons who have entered into a contract with the district under which they agree to make payments in lieu of the tax levied pursuant to subsection A.

4. Persons that are real property owners within the service area of the district and that will use the water within the district's service area.
5. The Arizona water banking authority if that authority is acquiring water that will be used for the benefit of those persons prescribed in this subsection.

The ultimate beneficiaries of every acre-foot of water that has been or will be allocated within the CAP three-county service area have historically paid the *ad valorem* property taxes levied by the CAWCD Board of Directors. Consequently, every acre-foot of CAP water that is initially allocated or reallocated outside of the CAP three-county service area also carries with it an accumulated property tax equivalency charge, plus interest.

For the NIA Reallocation, this charge was computed back to 1983, just as in the CAP M&I exchange subcontracts entered into by water users outside the CAP service area. The method used to calculate the tax equivalency charge was the three-year rolling average formula specified in statute, plus interest at the weighted average interest rate earned by CAWCD on its investments with the Arizona State Treasurer since 1993 and the 5-year U.S. Treasury Bill rate prior to that.

The preliminary amount of the back property tax equivalency price component for the 2014 NIA reallocation is estimated to be approximately \$1500/acre-foot. This amount is based in part on estimates and may change up to the time of the actual NIA reallocation effective date.

***Please note that the back property tax equivalency price component is applicable only to NIA reallocations made to subcontractors outside the CAP three-county service area. It is not anticipated that the initial NIA reallocation will include any amounts outside the CAP service area.***

### **Supply Availability Charge**

Due to CAP's unique water delivery contract, CAP receives Colorado River water that is unused by senior priority Arizona Colorado River contractors. These unused entitlements serve to fill a portion of the long-term NIA priority water supply as well as the excess water pools. If, at some point in the future, the senior priority Arizona Colorado River contractors utilize their full entitlements, there will be a direct impact to the "normal" year availability of the NIA priority water supply as well as any excess pool. Estimates of potential utilization of senior Arizona Colorado River contracts and the resulting impacts to the NIA priority supply vary significantly. For example, ADWR's Scenario "A" shows no

impact to NIA supply from senior on-river uses through by 2060, while Scenario "B", roughly equivalent to WRDC estimates, shows a reduction to the "normal" year availability of the NIA supply of approximately 80,000 acre-feet per year.

In an attempt to address the potential impacts on the "normal" year availability of the NIA priority water supply from increasing utilization by senior Arizona Colorado River contractors, CAP proposes the assessment of an availability charge of \$1,000/af for NIA reallocation. The charge is based on a concept level estimate of the funding potentially needed to acquire or preserve the amount of Colorado River water necessary to maintain some or all of the "normal" year availability of the NIA priority water supply. **The funding is not intended to firm the NIA priority supply during shortages.**

### **Summary**

For the 2014 ADWR NIA Reallocation, preliminary acquisition costs are estimated as follows:

9(d) Debt Component	\$ 389	/acre-foot
Back Capital Charges Component	899	
System Availability Component	<u>1,000</u>	
Total	\$2,288	/acre-foot

The amounts shown are for NIA reallocations made to subcontractors within the CAP three-county service area. Allocations outside the CAP service area would also bear the Back Property Tax Equivalency Price Component.

The amounts shown are for a 2014 NIA reallocation only. NIA reallocations in other years would result in different amounts. These amounts are based in part on estimates and may change up to the time of the actual NIA reallocation effective date(s).