

**Metropolitan Domestic Water Improvement District
Board of Directors Meeting**

September 14, 2015

CAP Water Credit Transfer Agreement with Town of Marana

Synopsis

The Board of Directors is requested to consider approving a second five-year agreement with the Town of Marana for the exchange of CAP water credits from the District.

Background

A water provider with a 100-Year Designation of Assured Water Supply is required to replenish all mined groundwater pumped within the service area. A water provider can accomplish this task in many ways. The water provider can join the Central Arizona Groundwater Replenishment District (CAGRDR). Then either CAGRDR recharges excess CAP water supplies to replenish the mined groundwater or the water provider can recharge and recover its own CAP water allocation instead of using CAGRDR services. Additionally, the water provider can offset groundwater mining by directly using effluent at golf courses/parks or recovering effluent credits through recovery wells. Another method is for the water provider to clean up groundwater classified by ADWR as poor quality, such as from the South Shannon well.

Since 1999, the District has been annually recharging and recovering about 7,500 acre-feet per year of its 13,460 acre-foot CAP water allocation and has used the CAGRDR in a very limited way to offset any mined groundwater not covered from the District's recharge efforts. Additionally, the District is able to store 3,000 to 4,000 acre-feet of CAP water as Long-Term Storage Credits.

The Town of Marana is also using annual recharge and recovery of their CAP water allocation of 1,528 acre-feet per year rather than CAGRDR services. In 2010, the District and the Town of Marana entered into a five-year CAP water credit purchase agreement. This helped the Town to meet its annual Assured Water Supply requirements when their future water demands will exceed their CAP water allocation. The District has benefited by such an agreement by using the credit sales to purchase and order more of the District CAP allocation of 13,460 acre-feet.

Issues

The Town of Marana has proposed renewing its five-year agreement with the District to annually purchase up to 1,554 acre-feet of CAP water credits from the District at current CAP water delivery and recharge costs. The District has a CAP water allocation of 13,460 acre-feet per year but the

present annual budget allows for utilization of about 12,000 acre-feet per year. To date, the District has through its recharge efforts banked 21,720 acre-feet of CAP water credits. The Town's CAP water allocation is 1,528 acre-feet per year but its future water demand is expected to be much higher. The District would continue to benefit from such an agreement by using the monies from the credit sale to accelerate fully using its annual CAP allocation of 13,460 acre-feet per year.

The following denotes key provisions in the new agreement:

Section 2.2 provides the Town of Marana with flexibility in deciding whether or not to annually have the District store water for the Town of Marana. The maximum storage volume is limited to earning annually 1,553.725 acre-feet per year for the next 5 years. Marana's annual credit needs of up to 1,553.725 acre-feet will not impact the District's CAP recharge and recovery needs of 7,500 acre-feet per year.

Under Section 2.2, the Town must notify the District by August 31st of its storage needs for Metro to meet its annual CAP water order deadline of October 1st. Section 2.4 details that the credit purchase price paid by the Town is equal to the current cost of Municipal and Industrial CAP subcontractor water plus recharge expenses (operation and maintenance costs at AVRVP or the Lower Santa Cruz Recharge Project, water losses and administration costs). This agreement provides Marana the option to also store at the BKW Farms Groundwater Savings Project (GSF), but at a higher administrative cost.

Section 2.5 is a new section that covers if CAP provides the District with a CAP Reconciliation refund or bill. The District would transfer additional credits to Marana if the District received a reimbursement from delivery costs or must reduce the credits transferred to Marana because the District owed CAP for higher delivery costs. Section 2.6 provides Marana with its proportional share of any In-Lieu Rebate the District receives from BKW Farms if Marana elects to store at BKW Farms GSF. In that situation, the District would transfer to Marana additional credits equivalent to Marana's proportional share of the In-Lieu Rebate.

Section 2.7 requires the Town of Marana to reimburse the District for the stored water on a monthly basis. For example, the District would receive monthly payments from Marana for the credits in 2016 prior to the District transferring the credits to Marana in late 2017. Additionally, the credit transfer to Marana does not occur until after the credits are deemed by ADWR (Section 6.0) and the credits earned by Marana will reflect any regulatory deductions made by ADWR.

Section 3.0 limits the contract term to five years. Under Section 11.1, the contract can be terminated by either party by giving 180 days written notice or Section 11.3 terminates the agreement immediately if CAP water is unavailable from the Central Arizona Project. Lastly, the District and Marana in Section 10.0 agree not to object to the other's recovery wells permits if those recovery wells are within the one mile safe harbor of a recharge project.

Recommendation

Staff recommends the Board of Directors approve a CAP water credit purchase agreement with the Town of Marana for a five year term. The working relationship with the Town of Marana for

the past five years has been positive. The agreement is beneficial to the District's efforts to maximize the use of its CAP allocation.

Suggested Motion

I move the Board of Directors approve the Agreement to Sell and Assign Central Arizona Project Long-Term Storage Credits in the Tucson Active Management Area with the Town of Marana with an expiration date of December 31, 2020.

Respectfully submitted,

Warren Tenney
Assistant General Manager

I concur with the above-noted recommendation.

Respectfully submitted,

Joseph Olsen, P.E.
General Manager