



CAWCD'S 4-Cent Property Tax Extension of Levy Authority

Authorized by the Arizona State Legislature in 1990, the 4-Cent Tax is an ad valorem property tax levied by the Central Arizona Water Conservation District (CAWCD), which is a three-county special taxing district. The CAWCD is governed by a 15-member elected Board of Directors that manages and operates the 336-mile Central Arizona Project (CAP) canal. CAP is Arizona's single largest water supplier, providing more than 1.5 million acre-feet (nearly 500 billion gallons) of Colorado River water to Maricopa, Pima and Pinal counties each year.

QUICK FACTS ON THE 4-CENT TAX

- Through 2024, the tax rate cannot exceed 4 cents per \$100 of a property's total value, and the tax must be levied at a single rate across the three-county CAP service area.
- Beginning in 2025, the tax rate is scheduled to step down to 3 cents per \$100 of a property's total value.
- The tax equates to \$8.00 per year for a homeowner with a \$200,000 house (each 1 cent of the tax equates to approximately \$2.00).
- The tax generates approximately \$24 million per year (each 1 cent of the tax equates to approximately \$6 million).
- The tax represents approximately 6-7% of CAWCD's overall annual revenues.
- The tax expires on January 1, 2030. The CAWCD Board has voted to seek legislation to maintain the taxing authority at 4-cents and extend it until January 1, 2045.

Arizona law specifies a tiered system for the use of 4-Cent Tax revenues. The tax may be used for CAP purposes with regard to Operation, Maintenance, and Replacement (OM&R) expenses of the canal and to repay the federal government for its share of the construction costs of the canal. Those payments average \$55 million annually and the final payment towards CAP's federal repayment obligation is scheduled to occur in January 2045. The remaining funds are available to support M&I firming responsibilities with the Arizona Water Banking Authority (AWBA) and as authorized by the CAWCD Board by annual resolution.

Each year, the 15-member CAWCD Board must first determine whether there is a need to levy the tax, and for what purposes the tax will be used. If the tax is to be levied, the Board establishes the allocation and distribution of funds through an open process, which includes a series of public meetings to receive stakeholder feedback. A Board resolution adopted in this manner specifies how the 4-Cent Tax will be used in the upcoming year.

FOUR-CENT TAX AUTHORITY (A.R.S. § 48-3715.03)

"[The CAWCD] ...shall annually determine by resolution whether all or any part of the tax levied... be applied to the repayment of the construction costs of the central Arizona project... or to the annual operation, maintenance and replacement costs of the central Arizona project. Any taxes ...that are not deposited into the district [CAWCD] fund... shall be deposited...in the Arizona water banking fund..."

CONTINUED RELEVANCE AND NEED TO MAINTAIN

The tax has provided CAWCD with a source of revenue to address the unanticipated costs of operating the CAP canal, and it has created nearly 2 million acre-feet of stored water for times of shortage. These purposes are still relevant today and will be even more important into the future. With the ongoing drought in the Colorado River basin continued financial resources will be vital.

Currently, the 4-Cent Tax is scheduled to step down to 3-cents beginning in 2025. In 2022, Arizona will face the first ever Tier 1 Colorado River shortage, with a reduction of 512,000 acre-feet, largely borne by CAP. Projections show deeper shortages are likely. In addition, the "1030' consultations" triggered this August by the 2019 Drought Contingency Plan (DCP) will require additional resources for a multi-state "500+ Plan" intended to further protect elevations in Lake Mead. As part of this plan, the CAP Board has already approved \$20 million in funding from CAP's taxes for Colorado River system conservation in 2022-2023, and \$5 million from taxes to offset increases in OM&R rates due to lower deliveries in 2022. The 500+ Plan is expected to span through at least 2026, and likely beyond that, further emphasizing the need for financial resources for future investments.

Looking towards the future, the current Colorado River Operating Guidelines (2007 Guidelines) and the DCP both expire at the end of 2026, requiring new guidelines to be negotiated by the seven Colorado River basin states. Facing that uncertainty, it is necessary for Arizona to be well-prepared for negotiating the next set of operating guidelines for the Colorado River. The current authority of the 4-Cent Tax is a tool that provides the CAWCD flexibility in addressing these future challenges.

In addition to the shortage-related challenges facing Arizona, the CAP canal system is now more than 35 years old. The 4-Cent Tax authority allows CAWCD to use revenues on OM&R expenses, ensuring reliability of the canal and other related aging infrastructure for today and years to come.

The 4-Cent Tax today, as in 1990 when it was established, benefits Arizona as a whole, and it provides the CAWCD with the financial flexibility to address current and future costs, thereby helping to ensure vital and reliable water supplies for today and into the future.

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TIMELINE OF THE 4-CENT TAX AUTHORITY

1990 – To address the State's underutilization of its 2.8 million acre-foot allocation of Colorado River, the Arizona Legislature authorizes CAWCD to collect a property tax in Maricopa and Pima counties to fund the construction of water recharge facilities for five years (Laws 1990, Chapter 385). Water storage is a way to bring otherwise unused CAP water into central Arizona for future use. The CAWCD successfully constructed four water recharge facilities with 4-cent funds.

1994 – The Legislature modifies the purpose of the tax to include OM&R expenses of the CAP and for federal repayment, expands the taxing authority to include Pinal County, and extends the tax until 2001. The CAWCD Board is required to annually determine whether the tax will be levied and how proceeds are utilized (Laws 1994, Chapter 278).

1996 – The Legislature creates the Arizona Water Banking Authority (AWBA), authorizes AWBA's use of 4-Cent Tax proceeds pursuant to CAWCD resolution, and extends the tax until January 1, 2017 (Laws 1996, Chapter 308). More than \$150 million of tax proceeds have been shared with the AWBA to store water underground for municipal and industrial purposes in times of shortage.

2015 – The Legislature extends the 4-Cent Tax until January 1, 2030, except that the tax rate bumps down to 3-cents in 2025 (Laws 2015, Chapter 224).