

**MINUTES OF THE MEETING OF THE BOARD OF DIRECTORS OF
THE TOWN OF CAREFREE, AZ UTILITIES COMMUNITY FACILITIES DISTRICT
AND THE BOARD OF DIRECTORS OF THE CAREFREE WATER COMPANY, INC.**

WHEN: TUESDAY, AUGUST 3, 2021

WHERE: ZOOM WEB

TIME: 4:00 P.M.

Attending

Chairman Les Peterson

Absent

None

Board Members:

John Crane

Vince D'Aliesio

Tony Geiger

Stephen Hatcher

Cheryl Kroyer

Also Attending:

Greg Crossman, District Manager and Water Company General Manager; Gary Neiss, Carefree Town Administrator; Michael Wright, District and Water Company Attorney; Kandace French Contreras, District Clerk and Water Company Secretary.

Chairman Peterson opened the meeting at 4:00 p.m.

AGENDA

ITEM #1 Approval of the June 1, 2021 UCFD/CWC meeting minutes.

Chairman Peterson announced the agenda item and asked if there were any questions or changes to the minutes. There were none.

Vice Chairman Crane moved to approve the minutes as presented. There was a **second** by Board Member Kroyer. The motion **carried** unanimously.

ITEM #2 Review, discussion, and possible action on Water Company Resolution 2021-13 which authorizes the execution of Subcontract Agreement No. 21-XX-30-W0693 with the Central Arizona Water Conservation District (CAWCD) and the United States Bureau of Reclamation (USBOR) for 112 acre-feet (AF) of Non-Indian Agricultural (NIA) Priority Central Arizona Project (CAP) water and authorizes the execution of required documents.

Chairman Peterson announced the agenda item and introduced Greg Crossman. Chairman Peterson commented that at he remembered discussing this topic a number of years ago. It has taken a long time, but he was excited that the matter was now before them now in final form.

General Manager Crossman agreed the matter was a long time coming. He explained to the Board that the matter before them was a new CAP water contract. Carefree's original municipal and industrial (M&I) allocation contract was for 400-acre feet in 1983 with a subsequent purchase of 900-acre feet in 2007 for a total CAP/M&I allocation of 1,300-acre feet annually from the Colorado River via the CAP canal. Additionally, with the acquisition of the Carefree service area, neighborhoods A, B&C another 378 acre feet are added for a total of 1,678 acre feet of water. The current demand for water through the Carefree Water System, including the Carefree Service Area, is about 1,300-acre feet. As seen, with the current 1678-acre feet of M&I water combined with our ground water, we have a fairly robust water portfolio to service our residents and businesses.

Mr. Crossman then summarized the presentation and the Resolution reminding the Board that the Resolution has been modified from the original Resolution presented in the council packet. Resolution 2021-13 authorizes the execution of a Subcontract Agreement with the Central Arizona Water Conservation District (CAWCD) and the United States Bureau of Reclamation (USBOR) for 112 acre-feet (AF) of Non-Indian Agricultural (NIA) Priority Central Arizona Project (CAP) water and authorizes the execution of required documents. The modification of the Resolution was amending it to include both the Carefree Water Company Board and the Utilities Community Facilities District Board. He stated the subcontract is with the United States of America and the CAWCD with an upfront capital cost of \$1,961.50 acre feet or \$219,688.00.

Mr. Crossman went over the background of the 2013 opening for reallocation of water by the Arizona Department of Water Resources and its process for reallocating just under 47,000-acre feet of CAP agricultural water. The Carefree Water Company applied for 118-acre feet in 2013 and in 2014 the Carefree Water Company received notice it would be recommended to receive 112-acre feet. It was expected that the environmental review process for the approval would be a 2-year process. It unfortunately turned into an 8-year review and approval process. But now they are ready to contract for this water.

Board Member Kroyer asked Mr. Crossman how he determined to request the 118-acre feet in 2013.

Mr. Crossman responded and explained his analysis and the future demand along with the current CAP allocation and the estimate of needed water at build out.

Mayor Peterson asked how it was possible that the agency is granting additional water in one area and pulling back in another, i.e., farmers and agriculture.

Mr. Crossman responded and explained that agricultural entities found the CAP water to be too expensive for their needs so they turned it back in to the CAP. Many have gone back to using ground water. Mr. Crossman then went into areas of note and he outlined the priorities of CAP and the Water Banking Authority and drought management. He explained the available use of the agricultural water.

Board Member Hatcher also asked for more information on the allocation of Native American water and why there appeared to be a discrepancy in who was being allotted CAP water.

Mr. Crossman explained location as it relates to the distance from the CAP canal. There was additional discussion regarding water availability to various Native American communities.

Mr. Crossman then broke down the capital investment of \$219,668.00. Fortunately, the Carefree Water Company has been setting aside funds for the allocation of the water since the FY14-15 and has a current balance of \$144,000.00, leaving about \$76,000 unfunded. The CAWCD is offering a 5-year payment option at 2.5%. It is anticipated the Carefree Water Company will use that payment option for the unfunded \$76,000.00. He stated that this is one of the last reminding allocations of water available and it is unknown when or if other allocations will become available in the future.

Board Member Hatcher asked if it was possible to reserve the water and not spend the money until it was needed? He questioned if it was a future asset available to us?

Mr. Crossman responded that either the water is purchased or released to sell to someone else. There is no way to defer the purchase.

Mr. Crossman, Vice Chair Crane and Board Member Hatcher entered into a discussion of the past costs and capital charge as well as the NIA water cost and the delivery charge and O&M charge.

Vice Chairman Crane asked if there was an ability to recharge at this time.

Mr. Crossman responded that there was not. He has been investigating some of the CAP allocations to recharge with Scottsdale as Scottsdale has a recharge site in the Carefree Basin in the Desert Mountain area. Up to this point there have been roadblocks because of non-lease provisions in the contracts and he is trying to work through that with the assistance of Mike Pearce, our water attorney. He is working on innovative ways to use this newly allocated CAP NIA water.

Vice Chairman Crane commented the water could also be used to supplement the CAP M&I water orders and asked if this water cost less or why would it be done? Mr. Crossman explained the process and thoughts behind this matter and explained that they need to perfect the use of this water.

There was additional discussion regarding the M&I water and supplementing the CAP water.

Board Member Hatcher asked about the pricing difference in the water. Mr. Crossman explained the pricing is the same.

Chairman Peterson asked about possible cutback in CAP water and questioned if this water would be any better or worse as to future cutbacks?

Mr. Crossman discussed the thoughts and speculations for future cutbacks. There was additional discussion regarding future use and possible increased density of the Town, increased development and the assurance and strength of the water portfolio. There was additional discussion that this is a recharge opportunity.

Vice Chairman Crane moved to approve the District and Water Company Resolution as presented. There was a second by Board Member Hatcher. The motion carried unanimously.

ITEM #3 Review, discussion, and possible action on District Resolution 2021-14 which authorizes the execution of an Addendum to the Advance in Aid of Construction Water Facilities Agreement dated June 7, 2006, modifying the Payoff Schedule for District payments to the Town of Carefree.

Chairman Peterson announced the agenda item and asked Mr. Greg Crossman to walk the Board through the matter.

Mr. Crossman presented a Power Point and provided background on the agenda item with the subject being the Capital Advance. He explained that in 2006 the Town and the District entered into a repayment agreement. This Agreement, shortened to the title, "Capital Advance" was used to fund improvements funded by the Town at a time that the Water Company did not have a lot of funds in 1998. Originally the capital advance was set up to pay back \$2.3 million but revised two times, once in 2011 and once in 2012 for a total of \$3.2 million. The repayment is for principal only without interest. The original bond debt repayment of \$414,000 a year began being redirected for the "Capital Advance" repayment in December, 2018 which was anticipated to be paid off in June, 2026. To date, \$1.24 million has been repaid. The reason for the modification is the bonding effort for the Water Consolidation Project approved on July 27, 2021. The bonds will go to sale soon and the bond rating agencies and investors prefer to see "debt coverage" at 1.2 or 20% more than the debt that is to be repaid. If the full \$414,000 is paid to the Town in early years, it pulls the coverage below the 1.2 level. What is being requested is a modification of the payment schedule to keep the debt coverage at the 1.2 amount.

Mr. Crossman provided a Power Point slide showing the "pay by" date, the original payment amount, and the revised payment amount to comply with the 1.2 ratio. He addressed questions by Board Member Kroyer and explained the columns and payment schedule, showing a payment every 6 months and extending it from the original date of June 30, 2026 and adding payments to extend to December 31, 2028. The repayment amounts would be reduced for a certain period of time during the new bond repayment timeframe. As revenues increase, so will the payment to the Town, repaying the full \$3.2 million dollars.

Mr. Crossman reiterated the requested modification and explained it would be approved by Resolution 2021-14 and the total repayment amount remains the same while the repayment period would be extended 2 ½ years. It provides the District with a continuous 1.2 debt coverage and allows for the highest bond rating as well and provides the highest in investor appeal. He stated that if the Board approved the Resolution, the Carefree Town Council would also review and address acceptance of its portion under the Town Council meeting agenda item 12.

Chairman Peterson asked Mr. Crossman to confirm that the payment schedule has been worked out and agreed upon by the Town Administrator, Gary Neiss and Town accounting, Jim Keen, for the Town. Mr. Crossman affirmed that had been done. He stated it has also been reviewed and approved by Dan Jackson of Wildan Consulting.

Chairman Peterson spoke to the benefit of extending the debt to all the Carefree Water Company citizens.

Board Member Hatcher asked if there was any impact to covenants prior to the modification, if approved. He was assured there was none.

Council/Board Member Kroyer moved to approve Resolution 2021-014 as presented by approved. There was a second by Vice Chair John Crane. The motion carried unanimously.

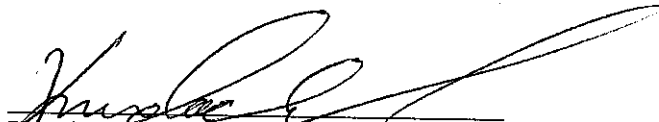
ITEM #4 Adjournment


Board Member Kroyer moved to adjourn. There was a second by Board Member Geiger. The motion carried unanimously.

Meeting adjourned at 4:54 p.m.

DATED this 3th day of August, 2021.


UTILITIES COMMUNITY FACILITIES DISTRICT
CAREFREE WATER COMPANY



Kandace French Contreras, Secretary

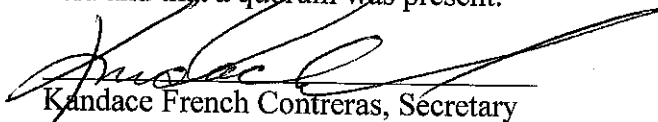
Les Peterson, Chairman

Attest:



Kandace French Contreras, Secretary

I hereby certify that the foregoing minutes are a true and correct copy of the Regular Meeting of the Town of Carefree held August 3, 2021. I further certify that the meeting was duly called and held and that a quorum was present.



Kandace French Contreras, Secretary