

ARIZONA WATER BANKING AUTHORITY
Draft Minutes

June 19, 2019

Arizona Department of Water Resources



Welcome/Opening Remarks

Chair Thomas Buschatzke welcomed the attendees. All members were in attendance. Commission Member Ray Jones attended via teleconference entering the discussions at the start of agenda item No. 3. *Ex-officio* members, Senate President Karen Fann and Representative Gail Griffin, were not in attendance.

AUTHORITY MEMBERS
Thomas Buschatzke, Chair
Ray L. Jones, Vice-Chair
Kathryn Sorensen, Secretary
Alexandra Arboleda
Mark Clark

EX OFFICIO MEMBERS
The Honorable Karen Fann
The Honorable Gail Griffin

Approval of Minutes

Chair Buschatzke asked for a motion to approve the minutes from the March 20, 2019 and May 10, 2019 meetings. Secretary Sorensen moved to approve the minutes. Commission Member Clark seconded the motion. The minutes for both meetings were unanimously approved.

Water Banking Staff Activities

2019 Q2 Credit Purchases. Ms. O'Connell stated there were no new credit purchases during the second quarter. The report reflects this year's long-term storage (LTS) credits purchases that have been fully transacted. LTS credits total 7,842 acre-feet and cost just over \$1.75 million.

Colorado River Status Report. Bret Esslin, ADWR Colorado River Management, gave an update on the Colorado River system (presentation available online). He noted Lake Powell is currently at elevation 3,594 ft and Lake Mead is at elevation 1,085 ft. The total system storage is at 48 percent of capacity. Earlier in the year it was anticipated that Blue Mesa would not fill, but it is currently at 56 percent full. Unregulated inflow to Lake Powell has increased by an additional 1 million acre-feet (maf) since last month with Water Year (WY) 2019 inflows estimated at 13.5 maf, nearly double the 6.9 maf estimated in January. Last year was the fifth driest year. This year could be the third wettest with regard to inflows into Lake Powell. The snow water equivalent is currently at 936% of median. As a result, end of year lake elevations for Lake Mead and Lake Powell have increased and are projected to be 1,086 ft. and 3,620 ft., respectively, which represents an increase of 18.2 ft. for Lake Mead and 52.8 ft. for Lake Powell. The most probable Lake Powell release for 2020 is 9 maf. Mr. Esslin stated that of interest is the probable maximum projection, which represents 11 of the 111 model outcomes, that shows an equalization release of 12.8 maf. He added that the five-year probability table that is typically in the report is not available at this time and will be released by the Bureau of Reclamation after the Drought Contingency Plan (DCP) assumptions have

been incorporated. The results are expected to be released at the end of the month.

Central Arizona Project System Update. Marcus Shapiro, Central Arizona Water Conservation District (CAWCD) Water Systems Supervisor, provided an update on Central Arizona Project (CAP) deliveries. He noted deliveries to date are behind compared with the last four years due to cooler and wetter conditions this past winter and spring. Committed delivery supplies do not yet include the 117 kaf of tribal intentionally created surplus (ICS) that will be created, which will further reduce delivery volumes.

The final accounting of contributions to Lake Mead for 2018 total 181,240 acre-feet. For 2019, contributions will include just over 112 kaf of CAP conservation including roughly 26 kaf from agricultural (Ag) forbearance programs and just under 86 kaf from excess CAP water, approximately 41 kaf of conservation under the Pilot System Conservation Program, and 123.8 kaf of tribal ICS for a combined total of nearly 277 kaf.

Mr. Shapiro informed Commission members that CAWCD held a water user briefing in May. Several topics were discussed including Colorado River conditions, conservation and the creation of ICS, next year's water supply outlook, DCP effects on operations, how the closure of the Navajo Generating Station will affect energy and the actions CAWCD has taken in that regard. The CAWCD Board has developed a portfolio to ensure energy needs will be met without significant changes. He also announced that a round table discussion would be held the next day concerning excess CAP water.

For 2020, CAP diversions are estimated to be 1.67 maf. After DCP Tier 0 reductions of 192 kaf, 75 kaf for losses and the inclusion of 30 kaf of water from Lake Pleasant, CAP delivery supplies will total 1.43 maf. This amount is estimated to include 1.2 maf for long-term contracts and 233 kaf for the Ag Pool. Additional supplies could potentially be made available to the Ag Pool from Lake Pleasant because the lake is very full. Secretary Sorensen asked if the 30 kaf from Lake Pleasant was in addition to the volume identified for use under the DCP Implementation Plan. Mr. Shapiro noted that it was and that water for DCP will continue to be held in the lake.

Recovery Planning. Rabi Gyawali, ADWR Colorado River Management, updated Commission members on recovery planning efforts. He noted the Recovery Planning Advisory Meeting (RPAG) met almost every month from January 2018 to April 2019. Staff from CAWCD, AWBA and ADWR are currently preparing an addendum to the existing Joint 2014 Recovery Plan based on RPAG discussions. The addendum will include information such as updated recovery capacity and firming requirements, the firming exercises conducted, and the Recovery Decision Tree that was developed as an outcome of the discussions. Past meeting documents are available online. He noted staff planned to share the draft document with RPAG members when the group reconvenes in October. The AWBA Commission and CAWCD Board would also be updated. Secretary Sorensen inquired why the RPAG would not be meeting until October, indicating that it was a long delay and that some of the urgency of recovery planning could be lost. Ms. O'Connell responded that much had been accomplished

during the course of the year and that staff was at a point where the activities of the group could be compiled into a document for review. Staff is currently working on incorporating more detail into the Decision Tree. Mr. Gyawali indicated that interagency staff would continue to meet during this time and could ask for input from the RPAG. Chair Buschatzke asked if the addendum would involve any legislative changes. Ms. O'Connell responded that the potential existed. Chair Buschatzke requested that the group meet in early September to allow time to prepare legislation in the event it is needed. Secretary Sorensen noted it would be helpful for staff to give a presentation regarding the legal framework for AWBA firming in the context of the RPAG, particularly if legislative changes are proposed. Chair Buschatzke indicated it would be considered for the next meeting.

Angie Lohse, CAWCD Resource Planning and Analyst, provided an update on CAWCD's recovery planning efforts in the vicinity of the Tonopah Desert Recharge Project (TDRP). As background, she noted analyses conducted in 2016 and 2017 on deeper parts of the aquifer indicated that due to limited hydrologic conductivity and water quality issues the depth at which wells could be drilled was limited, which would affect overall recovery plans at the site. An additional feasibility study was conducted in 2018 involving a spatial assessment of existing data to explore alternative locations for recovery within the entire Hassayampa sub basin. The recommendations from this study indicated that additional information was needed to determine which of these locations are most viable. CAWCD is currently entering into contract for additional geophysical work on and near TDRP that will be evaluated in relation to the hydro test well data previously collected and subsequently applied to alternative well sites. Secretary Sorensen inquired if CAWCD was evaluating the use of existing third-party wells since the analysis has moved outside TDRP. Ms. Lohse responded that existing wells were evaluated as part of the suitability analysis, but that opportunities near the canal were limited. However, it will continue to remain part of the investigations going forward.

Ms. Lohse also briefed members on the work that has been conducted regarding CAWCD's investment of up to \$5 million in the Ag Infrastructure and Efficiency Program. Staff has been meeting with the Ag districts to explore recovery opportunities and agreements for securing recovery capacity. Staff has coordinated with ADWR on these efforts. A briefing will be provided at tomorrow's Central Arizona Groundwater Replenishment District and Underground Storage Committee meeting.

Water Storage Tax. Ms. O'Connell reported that at its June meeting, the CAWCD Board of Directors adopted the Water Storage Tax resolution for tax year 2019/2020. The resolution reflects the new process for use of the water storage tax funds by the AWBA for credit purchase, which includes an upfront reservation of funds for this purpose. Reserved funds include \$3 million each from monies collected in Maricopa and Pima Counties. Since monies are reserved in advance, the AWBA can develop its Plan of Operation (Plan) for 2020 with greater certainty. The CAWCD Board will no longer need to amend the resolution during the Plan year to release monies for credit purchase. Additionally, any reserved funds not used in 2020 will carry forward to the next year.

Legislative Authorized Budget Transfers

Ms. O'Connell stated that Senate Bill 1548 authorized the use of \$1,412,200 from the Arizona Water Banking (AWB) Fund for fiscal year (FY) 2020. Of this amount, \$1,212,200 was allocated for use by ADWR, an increase of \$800.00 over FY 2019, and \$200,000 was allocated for use by the Arizona Navigable Stream Adjudication Commission (ANSAC). As in previous years, staff recommended the transfer of funds be distributed proportionally from the Phoenix AMA, Pinal AMA and Tucson AMA withdrawal fee subaccounts based on revenues collected. She added that monies not utilized would be returned to the AWBA after the fiscal year ends.

Commission Member Clark moved to approve the staff recommendation for transferring \$1,412,200 in funds proportionately from each AMA withdrawal fee subaccount in the AWB Fund for FY 2020 pursuant to Senate bill 1548. Secretary Sorensen seconded the motion. Chair Buschatzke asked for public comment. Seeing none, he called for a vote and the motion passed unanimously.

Discussion and consideration of action to amend Exhibit A to the Lower Basin Drought Contingency Plan (LBDGP) Implementation Plan Long-term Storage Credit (LTSC) Exchange Agreement (LTSC Exchange Agreement)

Ms. O'Connell pointed out that Commission members approved the LTSC Exchange Agreement at the AWBA meeting held on March 20, 2019. She noted that Freeport Minerals (Freeport) requested an amendment to Exhibit A of the agreement that clarifies Freeport may elect to receive either Phoenix AMA LTSCs or Tucson AMA LTSCs since they do business in both AMAs. Exchange LTSCs would be limited to the Pima Mine Road underground storage facility where Freeport indicated it would store its CAP subcontract supplies absent shortages. Chair Buschatzke asked what the net effect would be to the AWBA if Tucson AMA credits are included. Ms. O'Connell responded that due to recent improvements to hydrologic conditions, it is unlikely that a shortage would be declared in 2020 and possibly also 2021. Exchanges in these years would have amounted to 7 kaf/yr under a Tier 1 shortage or 10 kaf/yr under a Tier 2 shortage, so the overall exchange amounts are already reduced by that amount. Additionally, under a separate LTSC exchange agreement, Tucson Water agreed to store 35 kaf in the Pinal AMA during 2020 through 2022 under Tier 2 shortages to fill the gap when the Ag Pool is reduced from 105 kaf to 70 kaf. In the event there is a Tier 1 shortage, LTSCs exchange with Freeport in the Tucson AMA would be well within the 70 kaf already taken into consideration under the Tucson Water exchange agreement.

Commission Member Arboleda made a motion to approve the amendment to Exhibit A to the LTSC Exchange Agreement, previously approved by the Commission on March 20, 2019. Commission Member Clark seconded the motion. Chair Buschatzke asked for public comment. Seeing none, he called for a vote and the motion passed unanimously.

2018 Annual Report

Ms. O'Connell informed Commission members that the draft 2018 Annual Report was updated based on comments received from the public. Additional comments called for a description of all LTSCs held by the AWBA by location. In response, a footnote was added to Appendix B, Table 1A indicating that this information is readily available on the AWBA website.

Ms. O'Connell followed by giving a presentation on the activities of the AWBA as described in the 2018 Annual Report. She noted the AWBA stored 38,000 af of excess CAP water for Arizona water users and 13,500 af of Nevada's unused apportionment for interstate purposes. The AWBA also purchased 13,100 acre-feet of LTSCs and developed 9,000 acre-feet of firming credits pursuant to the AWBA's intergovernmental agreement (IGA) with the Gila River Indian Community (GRIC). Expenditures for 2018 totaled \$15.23 million, which included \$12.7 million for Arizona objectives and \$3.06 million for interstate storage. She included a report on the progress that has been made on achieving AWBA objectives.

Ms. O'Connell briefed members on the AWBA's commitments under the Arizona Lower Basin Drought Contingency Plan (LBDCP) Implementation Plan, which include the AWBA's policy for distributing LTSCs for firming CAP municipal and industrial subcontractors, LTSC exchange agreements for purposes of facilitating mitigation water resources, and an IGA with the GRIC for developing ICS firming credits created as part of the offset component of the Implementation Plan. The AWBA is also a party to the Non-Indian Agriculture (NIA) Mitigation Agreement as well as the Arizona LBDCP Framework Agreement as these agreements recognize AWBA commitments under the Implementation Plan.

Ms. O'Connell also discussed recovery planning activities that occurred during 2018 including topics discussed with RPAG members as well as recovery activities conducted by CAWCD including executed recovery agreements and recovery well siting studies. Secretary Sorensen proposed two clarifying changes to the narrative provided in the annual report. First, she indicated she did not agree with the characterization that the 2014 joint recovery plan provides a "framework" for recovery of AWBA credits, noting it is instead a set of ideas or alternatives (pg. 11, paragraph 2, line 2). Nicole Klobas, AWBA counsel, suggested the word "foundation" as an alternative. Second, Ms. Sorensen commented that use of the phrase, the CAP system use agreement "...describes how the system can be used to meet AWBA firming requirements" was inaccurate because that is not described in the agreement, rather the agreement describes how non-project water can be moved through the system (pg. 11, paragraph 4, line 2). Ms. Klobas suggested replacing the phrase with "the system use agreement...establishes a legal basis for delivery of AWBA firming water through the system".

Lastly, Ms. O'Connell gave a brief discussion on the Ten-Year Plan. She reminded Commission members that the statutory requirement of the plan is to evaluate the

AWBA's ability to engage in other water banking services or interstate banking above and beyond storing excess CAP water to meet the AWBA's primary objectives. Since it is anticipated that excess water will not be available, these other activities are not likely to occur unless non-CAP water supplies are used, such as the storage of Nevada's unused apportionment for interstate purposes. This type of storage as well as the purchase of LTSCs are determined annually through mutual agreement by the parties and are addressed as part of the development of the annual plan of operation. While not required by statute, the Ten-Year Plan has also been used as a planning tool for developing the operating plan for the following year, including anticipated funding requests from CAWCD for LTSC purchases, and for projecting the likelihood of distributing LTSCs for firming or developing intentionally created surplus. Because the data regarding the long-term probability of shortages is not yet available, the analysis of credit distribution could not be included in the report. However, shortages are not expected in 2020 and possibly 2021. This information can be presented at a future date when the data becomes available.

Commission Member Clark moved to approve the 2018 Annual Report as submitted with the minor changes Secretary Sorensen enumerated and direct staff to submit the report to the Governor, Speaker of the House and President of the Senate by July 1. Secretary Sorensen seconded to the motion. Chair Buschatzke asked for public comment. Brett Fleck, Water Policy Analyst for the Arizona Municipal Water Users Association (AMWUA), stated that AMWUA had provided written comments that he felt were more than clarifications or technical errors. Ms. O'Connell responded that the comment letter had been distributed to Commission members. It included 5 comments, the last of which regarded including an appendix that identified the location of all AWBA LTSCs, which was addressed through the addition of the footnote as discussed earlier in the meeting. The first four dealt with adding information to the narrative on the AWBA's M&I firming policy and for recovery planning. The statements were not included because the AWBA Commission did not take a formal position on the comments provided. Ms. Klobas added that some of the comments were directed toward future actions that were not discussed in the report as what the AWBA had accomplished in 2018. Chair Buschatzke asked for additional comments. Seeing none, he called for a vote. The motion passed unanimously.

FY 2020 Administration Budget

Ms. O'Connell described expenses for the FY 2019 administration budget cycle noting actual expenditures of \$472k were substantially lower than the \$606k estimated. This is primarily attributable to the expenses budgeted for an additional .75 FTE, but not spent. Additionally, expenditures for professional and outside services were about half of the funds allocated for this purpose. Ms. O'Connell briefed the Commission on the proposed budget for FY 2020, noting that the proposed budget included two full-time employees (FTEs). She indicated that interviews for the Technical Administrator position have gone well and she expects to fill the position shortly. The budget also includes funds allocated to retain Henley Consulting. Ms. O'Connell noted an error in the cost of services paid to CAWCD which has increased under the newly executed

IGA. She concluded by commenting that the total proposed budget of \$505k is similar to historic administration budgets.

Secretary Sorensen pointed out that the authorized staff budget was decreasing from the previous year and indicated that the AWBA could benefit from additional staff. Ms. O'Connell responded that the budget increase for FY 2019 was intended as a temporary adjustment for succession planning purposes and the intent was always to budget for two FTEs going forward. She indicated that with support from Henley Consulting, staffing two FTEs should be adequate. Secretary Sorensen noted that she appreciated the work of Henley Consulting, but indicated the AWBA would be better served with more than 2 staff members, given the challenges ahead. Chair Buschatzke indicated that he was comfortable with the staffing levels proposed, but requested that Ms. O'Connell provide a report on the issue at the next meeting. Secretary Sorensen asked if the budget authorization could remain the same as the previous year to provide flexibility depending on the outcome of the report. Ms. O'Connell responded that the budget could also be amended during the year if needed. Secretary Sorensen noted it would be her preference to keep the budget authorization the same as last year. Commission Member Jones commented that he supports an evaluation of staffing needs but absent a specific plan he would be reluctant to continue with a higher authorization. He indicated that he favored supporting the current proposed authorization with an amendment in the future if needed.

Commission Member Arboleda moved to adopt the AWBA Administration Budget for FY 2020 with minor or technical changes, including the correction to the cost of services paid to CAWCD. Commission Member Clark seconded the motion. Chair Buschatzke asked for public comment. Seeing none, he called for a vote. All Commission members voted in favor, except for Secretary Sorensen who voted nay. The motion passed four to one.

Call to the Public

Chair Buschatzke asked for public comment. There were no additional comments. Chair Buschatzke announced the need to reschedule the next regular AWBA meeting scheduled for Wednesday, September 18, 2019. The meeting was rescheduled for Wednesday, September 25, 2019. The meeting adjourned at 11:21 a.m.