

ARIZONA WATER BANKING AUTHORITY
Draft Meeting Summary
(Virtual Meeting)
July 29, 2021



I. Welcome/Opening Remarks

Chair Tom Buschatzke and Commission members, Mark Clark, Alexandra Arboleda, Eric Braun and Joseph Olsen attended online via video conference. *Ex-officio* members, Senate President Karen Fann and Representative Gail Griffin, were not in attendance.

The meeting was called to order at 1:01 p.m.

Chair Buschatzke read aloud a resolution honoring the service of Tim Henley and asked for a motion. Commissioner Arboleda moved to approve the resolution, Commissioner Clark provided the second to the motion and the resolution was unanimously approved.

II. Approval of Meeting Minutes

Chair Buschatzke asked for a motion to approve the minutes from the March 17, 2021 meeting. Commissioner Clark moved to approve the minutes. Commissioner Arboleda provided the second to the motion. The minutes were unanimously approved.

III. Water Banking Staff Activities

Quarterly Report of AWBA credit purchases. Ms. O'Connell provided an update on credit purchases during the second quarter of 2021. The AWBA completed a purchase of 1,364 acre-feet (AF) of long-term storage credits (LTSCs) from the Tohono O'odham Nation (Nation) pursuant to ARS 45-841.01. The LTSCs were purchased using \$303,690 in Pima County 4¢ water storage tax funds. Cumulative expenses for all credit purchases this year are roughly \$1.87 million, for the purchase of 7,864 AF of LTSCs.

The AWBA has been informed that the Nation will not be making credits available for sale under the credit purchase agreement this year. Staff indicated the same may also be true for the Ak-Chin Indian Community.

Chair Buschatzke asked if there were any questions. There was no discussion.

Colorado River Status Update. Rabi Gyawali, ADWR Colorado River Management, gave an update on the Colorado River system. Lake Mead and Lake Powell are both at historic low elevations. He briefed the Commission on this year's Snow Water Equivalent (SWE) chart. SWE is a measure of the amount of liquid water contained in snowpack. The 2021 SWE peaked at 89% of average. Based on the U.S. Bureau of Reclamation's (Reclamation) July 2021 24-Month Study, Lake Powell end of calendar year projections

AUTHORITY MEMBERS

Thomas Buschatzke, Chair
Mark Clark, Vice-Chair
Alexandra Arboleda, Secretary
Eric Braun
Joseph Olsen

EX OFFICIO MEMBERS

The Honorable Karen Fann
The Honorable Gail Griffin

for 2021 are elevation 3,534.65 ft. or 27% of capacity and end of calendar year projections for Lake Mead are elevation 1064.84 ft. or 34% of capacity. Reclamation's July 2021 24-Month Study is predicting an 8.23 MAF release from Lake Powell in 2021 and a 7.48 MAF release in 2022. Based on the July 24-Month Study Lake Mead elevations, a Tier 1 operating condition is very likely in calendar year 2022 (most probable Lake Mead elevation of 1064.84 ft. on 12/31/21) and a Tier 2 operating condition is most likely for calendar year 2023 (most probable Lake Mead elevation of 1047.8 ft. on 12/31/22).

Chair Buschatzke commented that despite the SWE graph reflecting 89% of average, the run-off projections show only 31% of average. This trend is connected to dry soil conditions and is something all the basin states are watching carefully. Reclamation, in cooperation with the Upper Basin states, has decided to implement the Drought Response Operations Agreement (DROA) provision in the Upper Basin's Drought Contingency Plan. At specific triggers, this provision calls for emergency actions intended to protect Lake Powell from falling below the minimum power pool elevation of 3,490 ft. Under that agreement, between August and November, 181,000 AF of water will be released from three Upper Basin reservoirs. Reclamation and the Upper Basin states agreed to begin these releases before they were required under DROA due to extremely low run-off into Lake Powell. Reclamation, along with the seven of the basin states, is monitoring the situation and discussions to consider additional actions (prior to certain trigger points being reached) are beginning. The August 24-Month Study will almost certainly result in Arizona taking a 512,000 AF reduction to Colorado River supplies in 2022. ADWR will be working with CAP to keep everyone updated on these developments.

Chair Buschatzke asked if there were any questions.

Commissioner Olsen commented that the trend in the July 24-Month Study indicates a Tier 2 operating condition may continue at the end of 2023. While projections can change, this trend seems to be pushing Arizona closer to the territory we had all hoped to avoid.

Chair Buschatzke commented that \$10 million was allocated under the Drought Mitigation Fund to secure additional supplies dedicated to Lake Mead to help avoid a Tier 2 shortage. It is still uncertain whether supplies will be available or whether additional supplies will help avoid deeper reductions. Similar actions with other basin states are being considered. Reclamation's June five-year projections indicates a trend with further reductions and by 2025, it shows a 38 percent probability of Lake Mead declining below elevation 1025 ft. When DCP was completed in 2019, the probability of declining below 1025 ft. was about nine or ten percent. The trend over the last twenty years has been a couple bad years and then the elevations reset. However, overall Lake Powell and Lake Mead continue to decline approximately 2 MAF/year.

Central Arizona Project (CAP) System Update. Marcus Shapiro, CAWCD Water Systems Supervisor, gave an update on CAP water operations and reviewed Arizona's contributions to support Lake Mead conservation efforts for 2019 - 2021. The total volume across all conservation programs in 2019 was approximately 308,000 AF and the total in 2020 was approximately 334,000 AF. The 2020 total includes the required LBDCP Tier

Zero contribution of 192,000 AF. In 2021, there is approximately 323,000 AF of conservation anticipated. However, there is an additional 40,000 AF of conservation proposed by the Gila River Indian Community as part of Reclamation's DCP contributions. This agreement has not been finalized yet and will come before the CAP board for approval during the August 2021 board meeting. If approved, the total estimated conservation in 2021 would be 363,000 AF.

Mr. Shapiro briefed Commission members on coordinated efforts between agencies to plan and prepare for a Tier 1 shortage in 2022. He provided a timeline for continued activities, including various agency workshops and stakeholder group meetings. He noted that after the release of the August 24-Month Study, there will be quite a bit of additional coordination to implement the mitigation agreements under DCP and implement 2022 water orders.

Chair Buschatzke asked if there were any questions. There were none.

Report on Recovery Planning Activities. Simone Kjolsrud, Technical Administrator, provided an update on recovery planning activities. The final draft of the 2021 Joint Update to the 2014 Joint Recovery Plan has been released. Staff from all three agencies have received positive feedback on the document. It has been shared online through the ADWR, AWBA and CAP websites, as well as multiple emails, newsletters and blog posts.

Senate Bill 1147, which includes a statutory amendment allowing for the direct transfer of water storage tax credits by the AWBA to CAP M&I subcontractors, passed through the legislature unanimously and was signed into law by Governor Ducey on April 14th.

The last RPAG meeting was held on May 11th, 2021. Future RPAG meetings are anticipated in May and September each year and staff will provide updates on the April and August 24-Month Studies. Possible future agenda items include the operational timeline for M&I firming, M&I recovery capacity estimates and recovery partnership agreements. Staff will continue to consult with SNWA to plan for interstate recovery and work with CAP M&I subcontractors to complete firming agreements. The next RPAG meeting will be held virtually on Sept. 8th at 1:30pm.

Chair Buschatzke asked if there were any questions. Commissioner Braun commented that he appreciates the time and work invested in the updated recovery plan and efforts to listen to stakeholder requests. Commissioner Braun thanked staff for providing a document that everyone can use as a foundation for recovery implementation.

Chair Buschatzke agreed with Commissioner Braun. He commented that he expects this document will be a living document and based on the projections, it is a very important document. It includes a lot of good work by staff from CAP, ADWR and the Bank. The input from stakeholders was also extremely helpful in making progress on this effort.

Report on CAWCD Water Storage Tax Resolution. Ms. O'Connell briefed Commission

members on the CAWCD Water Storage Tax Resolution for the 2021/2022 tax year that was adopted by the CAWCD Board on June 10, 2021. The Board resolved to continue to set the tax rate at 4¢ and to deposit the funds into accounts held by CAWCD. The AWBA requested the Board reserve \$7 M for long-term storage credit purchases. This amount includes \$4 million in Maricopa County tax funds and \$3M in Pima County funds. These funds are held by CAWCD and deposited to the Arizona Water Banking Fund at the time of credit purchase. The remainder of the 4¢ tax revenues, will be used either for repayment of the project or for O&M and replacement costs. O&M includes costs for water storage by the Bank for CAP M&I firming in the event water becomes available.

Chair Buschatzke asked if there were any questions. There were none.

IV. Discussion and Consideration of Action on Source of Funds for Fiscal Year 2022 Legislative Authorized Budget Transfers from the Arizona Water Banking Fund

Ms. O'Connell reviewed the legislative authorized budget transfers. The legislature has authorized the use of just over \$1.4 million in funds from the Arizona Water Banking Fund for Fiscal Year 2022. As in previous years, the funds will be used in support of ADWR and the Arizona Navigable Stream Adjudication Commission (ANSAC). Staff proposed that funds for the transfer be made available proportionally from withdrawal fees collected in the Phoenix and Tucson AMAs. Withdrawal fees levied in the Pinal AMA through 2026 will be used for the Groundwater and Irrigation Efficiency Project under LBDCP and are not available to the AWBA.

ANSAC has historically requested funds during the second part of the fiscal year. However, if they request funds this year, there are sufficient funds available to meet the transfer request without impacting this year's Plan of Operation. ANSAC returned approximately \$322,000 in unspent monies this year. The returned funds were utilized to cover last year's transfer to ANSAC. ADWR has indicated they would request funds in the second half of the fiscal year, which allows the AWBA to carry out this year's Plan of Operation as adopted and to develop next year's plan taking the transfer into consideration.

Chair Buschatzke asked for any discussion by commission members. There was no discussion.

Commissioner Olsen moved to approve the transfer of \$1,412,200 proportionally from the Phoenix and Tucson Active Management Area withdrawal fee subaccounts in the Arizona Water Banking Fund for fiscal year 2022 pursuant to Senate Bill 1823. Commissioner Braun provided a second to the motion. Chair Buschatzke asked for public comment. There were no comments.

Chair Buschatzke asked for any further discussion by commission members. There was no additional discussion. The motion passed unanimously.

V. Discussion and Potential Action to Approve a Memorandum of Understanding Among the Arizona Department of Water Resources, Arizona Water Banking Authority and Central Arizona Water Conservation District Regarding Investigation of Augmentation Opportunities Through A Regional Recycled Water Program

Ms. O'Connell reviewed the concept of an augmentation opportunity known as the Regional Recycled Water Program (RRWP). The Metropolitan Water District (MWD) of Southern California has been exploring a water augmentation opportunity through the development of a water recycling project in partnership with the Los Angeles County Sanitation Districts. The project involves advanced treatment of reclaimed water that is currently discharged to the Pacific Ocean. Rather than discharging these supplies to the ocean, the recycled water would be discharged to Metropolitan's distribution system, replacing other imported supplies, including Colorado River water. By replacing Colorado River supplies with the RRWP supplies, it creates an opportunity to augment Arizona's Colorado River supplies through an interstate exchange agreement.

The project is intended to be developed in phases, with an estimated yield of approximately 170,000 AF per year at completion. MWD is initiating the first phase of the program through environmental permitting and initial design. The anticipated cost for the first phase is approximately \$25 million. The goal is to complete phase one by 2025, with the project fully developed in the early 2030s.

Under the proposal, ADWR and CAWCD plan to contribute up to \$6 million with \$5 million from CAWCD and \$1 million from ADWR. CAWCD plans to use the 4¢ water storage tax funds for the initial contribution. The expenditure of these funds for this purpose is consistent with the goal to benefit long-term contracts because it will provide future supplies for CAP M&I firming by the AWBA. If any party decides not to participate in the development of the water resource and exchange, the contributed funds are fully refundable. By participating in the program, the parties agree to work cooperatively on the development of a framework for how interstate water is exchanged and delivered to Arizona. This is important because it will also provide a structural basis for implementing other similar projects or opportunities that might come up in the future. In December 2020, Southern Nevada Water Authority (SNWA) entered into an agreement with MWD to participate in the program. Arizona's proposed agreement is very similar to the agreement executed by SNWA and MWD.

Three separate agreements are needed to implement the proposal. The first agreement, among MWD, ADWR and CAWCD is an agreement to contribute funds and identifies the funds for phase 1. The second agreement is a joint funding agreement between ADWR and CAWCD. The third agreement is a Memorandum of Understanding (MOU) between ADWR, AWBA and CAWCD regarding investigation of augmentation opportunities through the RRWP. Under the MOU, the parties will work cooperatively on a development agreement for the augmented Colorado River supplies, including any necessary

exchanges or regulatory changes that might be necessary to make that water available to Arizona. The AWBA is a party to the MOU due to the potential for firming, especially related to supplies developed using 4¢ tax funds. Ms. O'Connell noted that the AWBA and CAWCD have agreed to discuss the use of 4¢ tax funds under a separate IGA. Therefore, the AWBA would continue to participate in any future discussions concerning the potential use of 4¢ tax funds under a future development agreement.

The CAWCD Board approved the agreements in June and the project will likely be on Metropolitan's Board agenda for September.

Chair Buschatzke asked for any questions or discussion by commission members.

Commissioner Braun asked what source of funding ADWR plans to use for the \$1 million contribution to phase 1 of this project. Chair Buschatzke responded that ADWR's budget does not include \$1 million for this purpose. He indicated that he intends to request funds from the recently created \$150 million Drought Mitigation Fund, which was authorized by the legislature to augment Arizona's water supplies from outside the state. If ADWR is not able to secure funding, the entire \$6 million funding commitment will be funded by CAWCD.

Commissioner Arboleda moved to approve the Memorandum of Understanding among the Arizona Department of Water Resources, Arizona Water Banking Authority and Central Arizona Water Conservation District regarding investigation of augmentation opportunities through a Regional Recycled Water Program, absent substantive changes. Commissioner Braun provided a second to the motion. Chair Buschatzke asked for public comment.

Brett Fleck, City of Peoria, asked how the Commission anticipates water developed from this project will be used in the future and who might benefit from the project.

Chair Buschatzke responded that if the State of Arizona participates in funding the project, that funding would likely be provided through the Drought Mitigation Fund and those Board members will likely have input on how those supplies would be used. CAWCD anticipates using 4¢ water storage tax funds and anticipates partnering with the AWBA for M&I firming.

Commissioner Arboleda responded that this project is a great opportunity to cooperate with other states and it is a framework for how we might be able to solve problems along the Colorado River into the future. CAWCD considers this project a low risk opportunity to augment supplies in the future because the money is fully refundable if we decide not to proceed. Commissioner Arboleda was not prepared to comment on the exact details of how supplies would be used in the future.

Ken Seasholes, CAP Resource Planning and Analysis, clarified that the MOU includes language to ensure that any water developed using 4¢ water storage tax funds is to be used for M&I subcontract firming. If the project moves forward and there are other sources

of funds contributed, it may benefit others as well.

Brett Fleck commented that his concern was that the water acquired through tax dollars should benefit the widest array of water users.

Chair Buschatzke commented that statute defines how the 4¢ water storage tax can be used. It can be used for M&I firming, repayment of the project or OM&R.

Chair Buschatzke asked for any further discussion by commission members.

Commissioner Braun commented that he appreciates that potential funding through the Drought Mitigation Fund may allow this project to benefit users outside the CAP service area. While the funding from the CAP 4¢ water storage tax will benefit users within the CAP service area. This is an opportunity for the state to partner in a way that benefits the entire state.

The motion passed unanimously.

VI. Discussion and Potential Action to Approve AWBA Standard Agreements for Water Storage at Groundwater Savings Facilities

Ms. O'Connell reviewed the standard form agreements used for all GSF water storage partners. She commented that while there is currently no water available for storage, it is important to keep these agreements current in the event water does become available. There are two versions, one for district-owned wells and another for rightholder-owned wells. The agreements are updated every ten years and the new term ends on December 31, 2031. There are no substantive changes to the agreements. Modifications to the template are administrative changes, including a provision for execution in counterparts, new language related to the effective date, boilerplate provisions, new signature lines with dates included and a notice provision to include email addresses.

Commissioner Olsen moved to approve the Arizona Water Banking Authority Agreements for Water Storage at Groundwater Savings Facilities, absent substantive changes. Commissioner Clark provided a second to the motion. Chair Buschatzke asked for public comment. There was none.

Chair Buschatzke asked for any additional comments from the Commission. There were none. The motion passed unanimously.

VII. Discussion and Consideration of Action to Approve the AWBA 2020 Annual Report

Ms. O'Connell gave a presentation on the highlights of the AWBA's activities in 2020, including commitments made under DCP and recovery planning efforts. She noted that

that there was no excess CAP water available for AWBA storage in 2020. However, unexpected supplies became available mid-year and the AWBA was able to store approximately 60,000 AF. Additionally, roughly 27,000 AF of credits were purchased in the Phoenix and Tucson AMAs using Water Storage Tax funds. The AWBA also purchased 6,390 AF of ICS firming credits from the Gila River Indian Community (Community).

Simone Kjolsrud, AWBA Technical Administrator, reviewed the Ten-Year Plan covering the period from 2022-2031. The Ten-Year Plan includes an evaluation of the AWBA's ability to develop credits over the next ten years, the likelihood of Colorado River reductions and the potential need to distribute credits to meet a firming obligation.

The plan includes estimates for continued development of ICS firming credits in partnership with the Community and credit purchases based on current agreements in place in the Phoenix and Tucson AMAs. The AWBA will continue to fund the development of the remaining 21,000 AF of ICS firming credits, out of the 45,000 AF total identified under the DCP agreement. Credit development plans for CAP M&I firming include the purchase of up to 32,415 AF of credits in 2022 and up to 11,415 AF in 2023, resulting in an additional 19,700 AF in the Phoenix AMA and 24,130 AF in the Tucson AMA. There is also funding available in the Tucson AMA from withdrawal fees for approximately 1,000 AF of additional annual credit purchases.

The probabilistic projections for Lake Mead operating conditions were reviewed under multiple modeling scenarios. Ms. Kjolsrud provided a summary of both the April 2021 probabilistic projections included in the AWBA Ten-Year Plan and additional updated projections released by Reclamation in June. Based on the June 2021 projections, during the ten-year period the AWBA's total cumulative firming volume could be up to 473,000 AF under the Full Hydrology scenario and up to 685,000 AF based under the Stress Test Hydrology scenario. In 2020, both AWBA and CAP staff conducted an analysis to estimate the volume of recovery capacity that might be needed for firming purposes. This analysis is included in the AWBA's Ten-Year Plan and provides a breakdown of estimated CAP recovery and Independent Recovery.

When Reclamation's August 24-Month Study is released, a Tier 1 shortage declaration is anticipated for 2022 and the AWBA will have its first ever firming requirement. The AWBA will firm an estimated 9,400 AF of CAP NIA Priority supplies for the Gila River Indian Community. Based on probabilistic projections over the ten-year period, there is a significant probability of both tribal firming and M&I firming and the AWBA is actively preparing for credit distribution. Both CAP and AWBA staff will be working with stakeholders to complete firming agreements.

Commissioner Arboleda moved to approve the 2020 Annual Report as submitted or with minor or technical changes, and direct staff to submit to Governor, Speaker of the House, and President of the Senate. Commissioner Braun provided a second to the motion. Chair Buschatzke asked for public comment. There were no comments. The 2020 Annual Report was unanimously approved.

VIII. Discussion and Consideration of Action to Adopt the AWBA Administration Budget for Fiscal Year 2022

Ms. O'Connell noted that the AWBA budget is a reimbursement for cost of services provided by ADWR and CAWCD. She gave a brief overview of actual expenditures for fiscal year (FY) 2021. Expenses were less than estimated, primarily due to lack of travel as a result of Covid-19 protocols. She also reviewed the proposed administrative budget for FY 2022. The budget includes the addition of a new staff member for succession planning purposes. The budget is very similar to previous years and total expenses are budgeted at \$529,500 for FY 2022. Ms. O'Connell noted that the budget no longer identifies specific consulting services and there are additional travel expenses budgeted for next year.

Chair Buschatzke asked for clarification on the equipment budget and suggested there may be additional equipment needed for the new staff position. Chair Buschatzke noted that a significant portion of ADWR staff will telework and a state issued laptop is essential for meeting ADOA security requirements. Chair Buschatzke commented that it may be necessary to amend the budget for equipment purchases to support new staff.

Commissioner Braun moved to adopt the Arizona Water Banking Authority Administration Budget for Fiscal Year 2022 as presented or with any minor or technical changes. Commissioner Olsen provided a second to the motion. Chair Buschatzke asked for public comment. There were no comments. Chair Buschatzke asked for additional discussion by Commissioners. There were no additional comments. The motion passed unanimously.

IX. Call to the Public

There were no additional comments. The meeting adjourned at 2:49 p.m.

Future Meeting Dates:

Wednesday, September 15, 2021
Wednesday, December 1, 2021