

ARIZONA WATER BANKING AUTHORITY
Final Minutes

March 16, 2016
Arizona Department of Water Resources



AUTHORITY MEMBERS
Thomas Buschatzke, Chair
Ray L. Jones, Vice-Chair
Kathryn A. Sorensen, Secretary
Jim Hartdegen
Steven Moss

EX OFFICIO MEMBERS
The Honorable David M. Gowan
The Honorable Gail Griffin

Welcome/Opening Remarks

Chair Thomas Buschatzke welcomed the attendees and explained that due to an unavoidable scheduling conflict, he would need to rearrange the agenda. All members of the Authority were present except Jim Hartdegen. *Ex-officio* members, Senator Gail Griffin and Speaker David Gowen, were not in attendance.

Approval of Minutes

Chair Buschatzke asked for a motion to approve minutes from the December 2, 2015 regular quarterly meeting. Vice-Chair Ray Jones moved to approve the minutes. Steven Moss seconded the motion and the minutes were approved.

Water Banking Staff Activities

Colorado River Status Update. Gerry Walker, Deputy Assistant Director of ADWR gave an update on conditions on the Colorado River. Her presentation is available on the AWBA's website. Overall system storage (i.e. Lakes Powell and Mead) is at 49% of capacity, the same as last year at this time. The April through July forecasts have been adjusted downward and are now at 80% of average. El Nino conditions are expected to shift to La Nina conditions starting in May through July. Ms. Walker reminded Commission members that April is the adjustment month for Lake Powell releases and that a release of 8.23 million acre-feet is expected. However, there is an 89% probability it could be adjusted to a 9 million acre-foot release. Lake Mead elevation on December 31, 2016 is expected to be at 1,077.3 feet, about 2 feet lower than the last report. Elevation on December 31, 2017 is projected to be at 1,072.7 feet, which would trigger a Tier 1 shortage. Finally, the probability of shortage in 2017 has increased to 37% up from 18% based on CRSS modeling (excluding MTOM).

Election of Commission Officer

Chair Buschatzke introduced and welcomed new Commission member Kathryn Sorensen who was appointed by Governor Ducey and confirmed by the Arizona State Senate to be the person who represents an entity that holds a Central Arizona Project Municipal and Industrial subcontract. Chair Buschatzke noted the position of Secretary needed to be filled and opened the floor to nominations. Vice-Chair Jones moved to nominate Ms. Sorensen. Mr. Moss seconded the nomination and the motion passed unanimously.

Agreements for Indian Firming

Chair Buschatzke asked for a motion to convene into Executive Session of the Commission to discuss and consult with its attorneys on negotiations concerning agreements for Indian firming. Ms. Sorensen made a motion and Mr. Moss seconded the motion. The Commission convened to Executive Session at 10:15 a.m. and reconvened to open session at 10:40 a.m.

No action was taken relative to the discussions of the Executive Session.

CAWCD Strategic Reserve and Potential Impact on Water Storage Tax

Doug Dunlap, CAWCD Finance and Accounting Manager, gave a presentation on the status of CAWCD's strategic reserves (available online). He described a recommendation from CAWCD's Finance & Power Committee that is expected to increase reserve levels from current levels of approximately \$157 million to nearly \$224 million by 2019 relative to a projected target of \$212 million by 2018. The strategy would rely on an increase in capital charges and use of 1¢ of the existing 10¢ ad valorem tax through 2019. If a shortfall persists in 2019, the water storage tax would be used to make up the difference. Current estimates indicate that amount could be \$12 million. Commission members asked several questions regarding the different reserves held by CAWCD, why the reserves have been declining and what the next steps would be. Mr. Dunlap explained that the decline in projected reserves was primarily a result of the weak energy market. Previous projections also assumed that funds associated with the NIA reallocation would be received sooner. He noted that these issues would be discussed as part of CAWCD's upcoming rate making process starting in April. Final rates, including the annual setting of the ad valorem tax rates, will be adopted by the CAWCD Board in June. Regarding the use of the water storage tax, Mr. Dunlap indicated that this recommendation would require further discussion that would not occur until 2018 or 2019.

Water Banking Staff Activities continued

Monthly Deliveries. Ms. O'Connell reviewed deliveries for 2015 indicating that at year end the AWBA had delivered over 70,000 acre-feet of water, considerably more than the roughly 45,000 acre-feet originally planned. The additional volumes were largely stored in the Phoenix AMA. She also noted that the AWBA delivered 5,000 acre-feet to the Southside Replenishment Bank fully satisfying the obligation under the Arizona Water Settlements Act to deliver 15,000 acre-feet. At the State level, Ms. O'Connell indicated that based on provisional data provided by the USBOR, Arizona used 2.6 million acre-feet of Colorado River water in 2015. Around 190,000 acre-feet was left on the River, 96,000 acre-feet is considered Intentionally Created Surplus (ICS) and 94,000 acre-feet was system conservation water.

For 2016, the AWBA plans to recharge just over 65,000 acre-feet. Monthly deliveries are currently on schedule and there are no issues to report at this time. Ms. O'Connell did mention that staff is working with the Salt River Project (SRP) to enter into a water storage agreement for its groundwater savings facility as the AWBA plans to store 10,000 acre-feet at this facility.

Chair Buschatzke asked Ms. O'Connell if there were any issues regarding recharge capacity and potential turn back water at the end of the year. Ms. O'Connell described potential funding and capacity constraints and noted that staff would assess conditions and potential opportunities as the year progressed. Chair Buschatzke asked Ms. O'Connell to work with CAP staff to weigh the value of creating additional ICS as an alternative to storing any potential turn back water. Patrick Dent, Water Operation Manager at CAWCD, added that CAWCD has been working the USBOR on the accounting for 2015 to sort out the accounting for 2016 relative to the Memorandum of Understanding among the Lower Basin States and the Bureau of Reclamation

regarding ICS and system conservation water. He indicated he would report the results to the Commission in June. In addition, Mr. Dent indicated that some additional water that could have been made available in 2015 was instead stored in Lake Pleasant and made available to the Excess pool in 2016.

CAP System Update. Ken Seasholes, Resources Planning & Analysis Manager at CAWCD, briefed Commission members on the Draft CAP System Use Agreement, noting it was in the final stages of development between the CAWCD and the USBOR. The Agreement authorizes the use of the CAP system to be used to recover stored water, including over four million acre-feet of CAP water stored by the AWBA. The Agreement also resolves legal, financial and operational issues related to wheeling. The Agreement allows CAP to wheel non-project water supplies through the CAP system pursuant to standard form wheeling agreements and expanded system capacity. Wheeling by the Bureau of Reclamation is also authorized. And finally, the Agreement helps maximize the beneficial use of the CAP system by expanding the ability of long-term contract holders to exchange portions of their allocation with another party. The USBOR is currently consulting with its Tribal customers on the draft. CAWCD and the USBOR hope to provide a draft to the public soon.

Master Water Storage Agreement and Excess CAP Contract. Chair Buschatzke excused himself from the meeting and asked that Vice-Chair Jones continue to lead the meeting from this point forward. Vice-Chair Jones asked Ms. O'Connell to brief the Commission on the remaining staff activities. Ms. O'Connell informed Commission members that the AWBA's Master Water Storage Agreement with CAWCD will expire on December 31st of this year and that the AWBA's Excess CAP water contract will expire on December 31st of 2017. AWBA staff is currently working with CAWCD staff on the renewal of both of those contracts. Drafts will be provided to Commission review as soon as they are ready.

Proposed Legislative Transfers. Ms. O'Connell informed Commission members that the draft fiscal year (FY) 2017 budgets for both the Office of Strategic Planning & Budgeting (OSPB), the Executive budget, and the Joint Legislative Budget Committee (JLBC) include proposed transfers from the Water Banking Fund for \$1.65 and \$1.41 million, respectively. The difference between the two budgets is the roughly \$240,000 of non-reconcilable interstate monies that were appropriated to the AWBA last year to pay for a portion of the deliveries to the Southside Replenishment Bank. Both budgets include \$200,000 for ANSAC, the Arizona Navigable Stream Adjudication Commission, the same amount made available for this fiscal year. The remaining funds are to be used to support ADWR. Updates will be provided to Commission members as the budget process continues.

Call to the Public

There were no public comments. Vice-Chair Jones noted that the AWBA would be moving to 1110 W Washington between now and the next AWBA Regular Quarterly meeting. The location of the next meeting has not yet been determined. The meeting adjourned at 11:25 a.m.