

**ARIZONA WATER BANKING AUTHORITY**  
**Final Minutes**

**March 21, 2018**  
**Arizona Department of Water Resources**

---



### **Welcome/Opening Remarks**

Chair Thomas Buschatzke welcomed the attendees. Commission members Pamela Pickard and Mark Clark attended in person. Vice-President Ray Jones attended via teleconference. Secretary Sorensen was not in attendance. *Ex-officio* members, Speaker J.D. Mesnard and Senator Gail Griffin, were not in attendance.

**AUTHORITY MEMBERS**  
Thomas Buschatzke, Chair  
Ray L. Jones, Vice-Chair  
Kathryn Sorensen, Secretary  
Mark Clark  
Pamela Pickard

**EX OFFICIO MEMBERS**  
The Honorable J.D. Mesnard  
The Honorable Gail Griffin

### **Approval of Minutes**

Chair Buschatzke asked for a motion to approve the minutes from the November 30, 2017 regular quarterly meeting. Ms. Pickard moved to approve the minutes. Mr. Clark provided the second to the motion and the minutes were approved.

### **Water Banking Staff Activities**

**Monthly Deliveries.** Ms. O'Connell, AWBA Manager, reviewed the final deliveries for 2017 explaining that the AWBA was scheduled to store 17,630 acre-feet (AF) and that the target was met with 4,130 delivered to the Phoenix AMA, 11,400 AF to the Pinal AMA and 2,100 AF to the Tucson AMA.

Under the 2018 Plan of Operation, Ms. O'Connell indicated that scheduled deliveries total 38,000 AF. Deliveries are ahead of schedule with just over 5,400 AF delivered through February (310 AF planned) or 14% of overall deliveries. A little more than half the water was stored in the Phoenix AMA (2,779 AF) and the remaining half was stored in Tucson (2,623 AF). Deliveries have not yet been made to the Pinal AMA.

Ms. O'Connell reminded the Commission that, for the first time since 2010, there is an interstate banking component this year. There is a separate graph to show those deliveries, but there has been no activity yet, as interstate deliveries are not scheduled to begin until June.

**Credit Purchases.** Ms. O'Connell provided an update on credit purchases for the first quarter of 2018. She explained that pursuant to the AWBA's agreement with the City of Peoria executed last September, the AWBA purchased 6,500 AF feet of credits at a cost just over \$1.5 million. Maricopa 4¢ tax monies were used to purchase the credits making those credits only available to firm supplies for CAP M&I subcontractors in the Phoenix AMA. The credits purchased were developed at the Salt River Project groundwater savings facility (GSF).

**Colorado River Status Update.** Jeff Inwood, ADWR Colorado River Management, gave an update on the Colorado River system explaining that as of March 18, 2018, the total contents of the Colorado River system is at 53% or 31.34 million acre-feet (MAF) compared to this time last year of 50%. Lake Powell is at 54% or 13.1 MAF with a lake elevation of 3,614.07 feet and Lake Mead is at 41% or 10.5 MAF with a lake elevation of 1,088.09 feet. He also pointed out that snowpack for 2018, which is trending similar to

2002, is significantly below normal with the season virtually over resulting in a poor year. However, the projected inflow for 2018 is 6 MAF or 55% of the 30-year average and higher than 2002. This is largely because of a wet year in the latter part of 2017. Based on existing inflow data to date, the most probable release from Lake Powell is 9 MAF.

The probability for shortage in 2019 has increased from 15% in the August 2017 modeling results to 17% in the January 2018 modeling results. The probability for shortage in the following years, 2020 through 2022, has also increased by 7%, 13% and 11%, respectively.

The March 24-Month Study projects Lake Mead levels at year end 2018 to be 1,077 feet, two feet above the Tier 1 shortage trigger and 1,073 feet at year end 2019, two feet below the Tier 1 shortage trigger. Mr. Inwood pointed out that the elevation at the end of 2018 is two feet lower than the February 24-Month Study and is a result of a change of plans for intentionally created surplus (ICS) by California. Originally, California planned to create 95,000 AF of ICS, which would be a benefit to the system. The March 24-Month Study was updated to include California's change in plans to take 85,000 AF of ICS instead, which creates a net decrease of 175,000 AF, and accounts for a two-foot decrease in lake elevation. Commission members asked if the modeling included conservation efforts by different entities. Mr. Inwood replied saying the modeling includes pilot conservation volumes.

**CAP System Update.** Marcus Shapiro, CAWCD Water Systems Supervisor, gave an update on the CAP system indicating that no changes have been made to forbearance in Arizona since the last meeting. California is changing its plans in terms of ICS. CAWCD forbearance volumes for conservation efforts total 149,000 AF for 2018 and are not currently included in the Bureau of Reclamation's modeling. Pilot System Conservation activities total approximately 9,600 AF for a combined total of just over 158,000 AF conserved. Mr. Clark provided additional information regarding Bullhead City's conservation contribution of 2,200 AF, noting the City will be putting in additional injection well capacity to add more effluent to the system. Chair Buschatzke asked when the CAP System Conservation activities will be added to the modeling. Mr. Shapiro replied that it should occur in May of 2018.

**Legislative Budget Update.** Ms. O'Connell indicated that staff has been following the state budget proposals for fiscal year (FY) 2019 saying that presently, both the Governor's Office of State Planning and Budget (OSPB) and the Joint Legislative Budget Committee (JLBC) are proposing a reallocation of the same amount of funds from the Arizona Water Banking Fund (\$1.4 million) as for FY 2018 and includes \$200,000 to the Arizona Navigable Stream Adjudication Commission and \$1,211,400 for use by the Department of Water Resources. Staff will continue to monitor the legislation. If the proposed transfers are adopted, the AWBA can address, at the June meeting, how the monies should be disbursed from the Water Banking Fund.

Ms. O'Connell described some good news indicating that ADWR did not spend monies allocated to the Department for FY 2017. ADWR typically uses AWBA monies last to preserve the funds for AWBA use. Because of efficiencies in use of funds by ADWR, the monies are again available to the AWBA.

**Other.** Ms. O’Connell reported that the CAWCD Board of Directors formed a Customer Service Task Force co-chaired by Board President Lisa Atkins and Director Ben Graff with the objective of identifying actionable improvements to CAP customer service processes that will result in higher quality outcomes with better transparency, understanding and buy-in. According to Ms. O’Connell, CAWCD hired a third-party consultant, Jeanne Schulze, to assist with these efforts. Ms. Schulze developed a six-month roadmap that begins with a Discovery Phase. The purpose of this first phase is to gather information and feedback from Board members, stakeholders and CAWCD staff. Ms. O’Connell was invited to attend a focus group meeting in February as part of that process. The Task Force is expected to have its first public meeting on April 19<sup>th</sup> after completion of the Discovery Phase. She indicated that there is also a public survey available on CAWCD’s website.

### **AWBA Official Seal and Logo**

Ms. O’Connell explained that statute requires the AWBA to adopt an official seal for authentication of its records, decisions, and resolutions. An official seal was adopted in 1996 when the Bank was first established that is regularly used on the cover of AWBA reports. She noted that the graphical quality is no longer suited for website use, presentations, reports, and other documents. The colors of the state seal have also changed since 1996. As a result, the seal has been updated to meet the most current standards, both in file formats and color schemes as provided by the Secretary of State.

Ms. O’Connell lauded the work done by ADWR staff, specifically Shauna Evans, who did what Ms. O’Connell described as a fantastic job both on the seal and the logo. Ms. O’Connell explained that by adopting Resolution 2018-1, the AWBA would rescind the current seal and allow for the use of the new seal for authentication purposes. If approved, the AWBA will seek final approval from the Secretary for use the seal. In addition, ADWR staff has prepared a logo for AWBA branding purposes. If adopted, the logo would be used in day to day operations, including the AWBA’s website, staff emails, and other communications. Both the seal and the logo are in color and black and white formats.

Ms. Pickard moved to rescind Resolution 1996-1 dated September 10, 1996 and approve Resolution 2018-1, adopting the updated version of the AWBA’s official seal as shown in the attachment consistent with the AWBA’s statutory requirement to “adopt an official seal for the authentication of its records, decisions and resolutions”, with the edit to the resolution correcting the date. Mr. Clark seconded the motion and the motion passed.

Ms. Pickard then moved to approve adoption of the AWBA logos, in color and black and white, to be used for branding purposes including use on the AWBA website and for communication related to the AWBA. Mr. Clark seconded the motion and the motion passed.

### **Extension of Purchase and Sale Agreement for Long-term Storage Credits with Tucson Water**

At the last AWBA meeting, Ms. O’Connell indicated that staff was working on a renewal of the AWBA’s credit purchase agreement with the City of Tucson that was set to expire at the end of 2017. Ms. O’Connell presented the new agreement to the AWBA indicating that it is very similar to the previous agreement. Some differences include changes to

the price formula to reflect current rates and some minor wording changes. As in the original agreement, the agreement allows for the purchase of up to 15,000 AF of credits per year not to exceed 45,000 AF over the three-year period. The 2018 Plan of Operation for this year does not include a credit purchase with Tucson Water. Available funding is instead being used for recharge in the AMA. The agreement was approved by the Tucson Mayor and Council on January 23, 2018.

Ms. Pickard moved to approve the Purchase and Sale Agreement for Long-term Storage Credits between the AWBA and the City of Tucson. Mr. Clark seconded the motion and the motion passed.

### **Purchase and Sale Agreement for Long-term Storage Credits with Ak Chin Indian Community**

Ms. O'Connell described the agreement with the Ak-Chin as a standard purchase and sale agreement with minor revisions to accommodate the uniqueness of the Community. The agreement is a three-year term for up to 6,600 AF per year of credit purchase. Ms. O'Connell indicated that the Community approved the agreement on March 8<sup>th</sup>, but the agreement has not been signed and if approved by the AWBA, it would go back to the Community for signature. For this year, the AWBA and the Community are proposing the purchase of 3,600 AF. The credits were accrued from storage at the Hieroglyphic Mountains Recharge Project, the Maricopa Water District GSF, the Salt River Project GSF, and the Hassayampa underground storage facility.

Mr. Clark moved to approve the Purchase and Sale Agreement for Long-term Storage Credits between the AWBA and Ak-Chin Indian Community. Ms. Pickard seconded the motion and the motion passed.

Mr. Clark then moved to approve the purchase of 3,600 AF of Central Arizona Project water long-term storage credits in calendar year 2018 for a cost of \$834,876.00 using funds in the Phoenix AMA withdrawal fee subaccount of the Arizona Water Banking Fund pursuant to the Purchase and Sale Agreement between the AWBA and the Ak-Chin Community. Ms. Pickard seconded the motion and the motion passed.

### **Recovery Planning Update**

Ms. O'Connell reported that the AWBA continues to meet with staff from ADWR and CAWCD as part of the interagency recovery planning group. The three agencies had the first meeting of the Recovery Planning Advisory Group or RPAG. The RPAG is a workgroup comprised of various representatives in the water community and is similar to the Ad Hoc Advisory group created when the 2014 Joint Recovery Plan was developed. Jeff Inwood has been taking the lead.

Mr. Inwood described the RPAG process indicating that there are 14 members in addition to agency members. The first meeting, primarily background in nature, was held on January 17, 2018. The next meeting is scheduled for March 27, 2018 and will focus on modeling and risk tolerance. Chair Buschatzke reflected on the last recovery planning process pointing out that there were several opportunities for public input as that plan came forth. Something similar should be a key part for the RPAG process as well. He noted that there will need to be ample opportunities for public vetting before a plan is brought to the CAWCD Board and the AWBA for approval. He suggested it

would also be helpful if the RPAG looks at where the AWBA can best purchase credits relative to recovery. Commission member Jones asked if the RPAG included representation of private water companies. Mr. Inwood responded that Bill Garfield, Arizona Water Company, and Troy Day, EPCOR, both represented private utilities. Mr. Inwood also noted that Maureen George, representing on-River entities, had announced her retirement in September and that a replacement may be needed.

Laura Grignano, Senior Policy Analyst, CAWCD gave an update on CAWCD's recovery implementation efforts including the interstate recovery agreements in the Tucson AMA. The Tucson Water Funding Agreement between CAWCD and the City of Tucson is similar to the agreement approved in the Pinal AMA last year with Arizona Water Company. She explained that SNWA's right under the agreement is for up to 10,000 AF per year of prepaid annual recovery capacity (\$1 million) with a maximum of 65,000 AF from Tucson Water recovery wells during the term of the agreement, January 1, 2020 through December 31, 2050.

Ms. Grignano also described the findings of the research efforts at the Tonopah Desert Recharge Project where roughly 800,000 AF of water has been stored, half of which was stored by the AWBA. The research shows lower conductivity and higher levels of arsenic and fluoride than shown by previous analyses. Consultants are recommending well depths not to exceed 850 feet. More wells will also be required (about 10 times more) and as such costs will increase from \$300 to \$500 per AF. The consultants recommend developing a smaller well field in the northern part of the site and/or developing options offsite as most of the water has migrated off. Chair Buschatzke asked if the increase from \$300 to \$500 was related to the increased number of wells. Ms. Grignano responded affirmatively. Ms. Pickard asked if going offsite required starting at square one. Ms. Grignano indicated that there would need to be exploratory drilling at those new sites. Mr. Buschatzke commended Ms. Grignano's efforts in recovery planning acknowledging she would be moving on to manage the Central Arizona Groundwater Replenishment District.

#### **Four-Party Letter Agreement for Recovery of Interstate Credits in the Tucson AMA**

Ms. O'Connell clarified that under the Agreement for Interstate Water Banking among the AWBA, SNWA, and CRCN, recovery facilities used to meet SNWA's request for water in a given year are at the discretion of the AWBA. The interstate banking agreement also requires that the parties confer on the development of a recovery schedule for developing intentionally created unused apportionment (ICUA). The Four-Party letter agreement between the AWBA, the CAWCD, SNWA and CRCN, described by Ms. Grignano, acknowledges SNWA's rights under the Tucson Funding Agreement and provides assurances that the AWBA will prioritize use of the recovery facilities where SNWA has made an investment to secure recovery capacity. Commission member Pickard noted that it was a good agreement for all parties involved. Thomas Maher of SNWA addressed the Commission expressing his appreciation and opportunity to work with all involved in the recovery agreements, including the letter agreement.

Ms. Pickard moved to approve authorizing Chair Buschatzke to sign the letter agreement between the AWBA, CAWCD, SNWA and the CRCN confirming recovery for

SNWA in the Tucson AMA. Mr. Clark seconded the motion, and the motion passed.

### **Use of Water Storage Ad Valorem Tax**

Ms. O'Connell described the history of CAWCD's water storage tax resolutions and how they have changed over time. Through 2003, the resolutions stated the revenues collected would be deposited into the Arizona Water Banking Fund. Following significant discussion among stakeholders, in 2004, a decision was made to retain the water storage tax at CAWCD to protect the funds from potential legislative transfers. The resolution identified that the funds were to be used for operation and maintenance (O&M) of the project, with O&M defined as water storage by the AWBA for CAP municipal and industrial (M&I) firming and for administration costs. Recognizing that the monies may be needed for other purposes, the language in the resolutions broadened over time. In 2009, the resolution identified O&M as underground storage and in 2010, the resolution identified use of the funds simply as O&M of the project. In 2012, repayment was added and in 2016, a statement was added recognizing that O&M includes AWBA storage for M&I firming purposes.

The new resolution recently adopted by CAWCD, amends all past resolutions to be consistent with the current resolution. As such, the remaining funds collected under the resolutions for 2004 through 2009, roughly \$63 million, can be used for purposes other than water banking, the original identified purpose. There is also a recommendation before the CAWCD board to move \$41 million of the remaining \$63 million to a decommissioning reserve. Commission members asked for clarification on the use of the funds being used for more purposes than just water banking. Ms. O'Connell responded that the \$63 million could now be used for repayment, O&M and for offsetting AWBA water storage costs.

Doug Dunlap, Finance and Accounting Manager for CAWCD, gave a presentation on decommissioning the Navajo Generating Station (NGS), existing reserves and recommended changes in the use of the water storage tax. Decommissioning costs are estimated at \$123 to \$157 million. CAWCD has approximately \$80 million available in reserves today for decommissioning. The shortfall is projected at \$41 to \$75 million. Mr. Dunlap indicated that incorporating these costs into rates would result in a significant increase.

Regarding the water storage tax, beginning in 2018 there was a total of \$113 million in the fund. Estimated additional taxes to be collected through 2030 is \$227 million, for a total of \$340 million. When reduced by federal repayment transfers (\$45 million), the current decommissioning transfer and the estimated cost to finish M&I firming in Maricopa, there should be an estimated \$227 million remaining. The proposed \$41 million transfer will not include funds from Pinal or Pima Counties as those funds are needed to meet M&I firming goals in those AMAs. The rationale for using the existing water storage tax revenues is that decommissioning is an appropriate use of the water storage tax and that funds collected in previous years should be used to pay for liabilities associated with past usage. Finally, there are adequate funds available to meet the AWBA M&I firming goals.

Being new to the AWBA, Commission member Clark indicated he would need additional information and time to review this matter in order to participate in a meaningful way. Chair Buschatzke noted that CAWCD only had a few more years to collect revenues

before NGS closes and asked if rates could also be collected from Tribal entities. Mr. Dunlap noted that the only option was to add the cost to energy rates, which could limit participation by the Tribes since the rates would double. Chair Buschatzke also inquired what the annual repayment amount is. Mr. Dunlap responded that it varies by year and totaled approximately \$55 million. The \$45 million transfer was to meet the shortfall for the last three years. Capital charges have been increased to account for the shortfall in the annual payment.

Lastly, Chair Buschatzke asked what would happen if NGS ultimately stays open beyond 2019 and if some of the \$41 million could be recovered if not needed for decommissioning. Mr. Dunlap noted that decommissioning payments have already begun. The plant is currently being operated in a shut-down mode with no capital replacements or major maintenance. If decommissioning happened in the future, CAWCD would still be responsible. Mr. Jones commented that it would be useful for AWBA and CAWCD staff to coordinate and evaluate the impact to the AWBA and stakeholders and to determine if there are sufficient funds available for AWBA firming purposes before the Commission makes a recommendation.

Ms. Pickard recused herself on the issue but noted she could inform CAWCD Board members of the discussion in her AWBA meeting update. The Commission directed staff to write a letter for Chair Buschatzke to sign requesting that the CAWCD Board postpone its decision on transferring these funds to the decommissioning reserve so the AWBA can take more time to understand all the implications of such a transfer and perhaps to take a position when the matter comes before the CAWCD Board for action.

### **Call to the Public**

Mr. Jones welcomed Mr. Clark to the Commission as a former colleague. He also thanked staff for sending a complete package of the all the items for the meeting making it easy for him to participate. Chair Buschatzke asked for public comment. There were no additional comments. The meeting adjourned at 11:45 a.m.