

ARIZONA WATER BANKING AUTHORITY
Draft Meeting Summary

June 29, 2022
Arizona Department of Water Resources
(Hybrid Meeting)



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

I. Welcome/Opening Remarks

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

The meeting was called to order at 10:00 a.m.

II. Approval of Meeting Minutes

Chair Buschatzke asked for a motion. Commissioner Olsen moved to approve the March 23, 2022 meeting minutes with any needed corrections. Commissioner Arboleda provided the second to the motion. The minutes were unanimously approved.

III. Report and Discussion of Water Banking Staff Activities

Quarterly report of AWBA credit purchases for calendar year 2022. Ms. Virginia O'Connell reported on the purchase of 2,540 acre-feet (2,473 acre-feet in the Phoenix AMA and 67 acre-feet in the Pinal AMA) of Intentionally Created Surplus (ICS) firming credits, under the AWBA's agreement with the Gila River Indian Community (Community). The transaction cost \$738,235.20 and was made using Phoenix and Pinal AMA withdrawals fee funds.¹

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

Status report on Colorado River conditions. Rachel von Gnechten, Water Resources Engineer with ADWR's Colorado River Management Section, gave the Colorado River Basin update. She noted the forecasted inflow for the water year 2022 was 5.61 million acre-feet (maf), which is 58% of average. The Colorado River basin continues to have low snow/water runoff despite relatively good precipitation.

¹ Pinal AMA withdrawal fees were from revenues due before 2020, prior to statutory amendments limiting the AWBA's use of this fund.

Ms. von Gnechten then moved to the projected Lake Powell end-of-month elevations from the latest CRMMS-ESP² modeling, which reflects May actions taken by the Department of the Interior to release 500,000 acre-feet from Flaming Gorge Reservoir to Lake Powell and to keep 480,000 acre-feet of water in Lake Powell that would have normally been delivered to Lake Mead. The end of calendar year 2022 most probable elevation projection for Lake Powell is 3,519.66 feet and the end of calendar year 2023 most probable elevation projection is 3,519.31 feet. These projected elevations are actual elevations and do not reflect "effective" projections. In its May 3 letter, the Department of the Interior indicated it would implement "operational neutrality," which means it would determine the Lower Basin Shortage as if the water had been delivered to Lake Mead and determine the Upper Basin Release Tier for Lake Powell in a manner to preserve the releases from Flaming Gorge Reservoir.

Ms. von Gnechten then showed the projected Lake Mead end-of-month elevations from the latest CRMMS-ESP modeling. The end of calendar year 2022 most probable elevation projection is 1,039.06 feet and the end of calendar year 2023 most probable elevation projection is 1,019.94 feet. The critical elevation identified in the Lower Basin Drought Contingency Plan (LBDGP) for protection is 1,025 feet. This is the level meant to give the Lower Basin States sufficient time to take action to protect delivery capability at Hoover Dam. Dead Pool at Lake Mead is at 895 feet. These projected elevations are also actual elevations. The end of calendar year 2022 "effective" elevation at Lake Mead is 1,045.95 feet. Reclamation is projecting a Tier 2a shortage; but without "operational neutrality" accounting, a Tier 2b is likely in 2023.

Ms. von Gnechten described actions taken to keep the reservoir elevation over critical levels. Under 3,470 feet, water from Lake Powell could only be released to Lake Mead through four river outlets, which would limit the currently prescribed volumes to Arizona. As Lake Powell's elevation drops, the number of functioning outlets decreases, which consequently reduces water release capacity. She concluded by saying that protecting Lake Powell elevations is essential to preserve Arizona's ability to receive water.

Total combined storage (wet water above 3,500 feet and 1,000 feet in Lakes Powell and Mead, respectively) has dropped in the past two years from 13 maf to 5 maf. This is due to inflow reductions into Lake Powell and the reduced volume of water released into Lake Mead. Ms. von Gnechten compared possible future hydrology scenarios modeled by the Bureau of Reclamation explaining that even with relief from a wet year (simulated by a 123% average inflow to Lake Powell) in 2024, the elevations in both lakes would continue to decrease over the next four years.

Ms. Von Gnechten informed Commission members that the Senate Energy and Natural Resources Committee (Committee) convened a hearing on the western drought on June 14, 2022. Camille Touton, Commissioner of Reclamation, was one of five witnesses to testify before the Committee, of which Arizona's Senator Kelly is a member. In her opening statement, Commissioner Touton noted that the Colorado River Basin needed

² Colorado River Mid-term Modeling System-Ensemble Streamflow Predictions.

to conserve an additional 2 to 4 maf per year between 2023 and 2026, to protect critical elevations in Lakes Powell and Mead. She informed the Committee that Reclamation's goal was to achieve a Basin-wide solution by the August 24-Month Study (August 15). Senator Kelly pointedly asked Commissioner Touton whether Reclamation would take unilateral action without regard to the priority system. The Commissioner responded, "Yes, we will protect the system." Senator Kelly also asked Commissioner Touton whether the federal government could move faster in employing desalination and water recycling projects under the Bipartisan Infrastructure Law. The Commissioner again responded "Yes." The Basin States are encouraged, however, to find a consensus and a collaborative solution. On June 16, 2022, Assistant Secretary Tanya Trujillo added that every sector in every state is expected to make sacrifices to contribute to protecting the river. Ms. von Gnechten concluded that the Lower Basin States have been discussing potential actions to achieve the 2 to 4 maf conservation goal.

Chair Buschatzke added that ADWR is committed to work to help protect CAP and the state of Arizona. He added that every sector and water user will be affected by the additional 2 to 4 maf cuts.

Commission member Olsen asked if all of the 500+ Plan water was accounted for in Reclamation's CRMMS modeling. Ms. von Gnechten responded that only the contributions contracted to date (which are less than 500,000 acre-feet) were included in the modeling results. Commission member Olsen asked Chair Buschatzke if there had been any discussions about additional cuts beyond 2026. Chair Buschatzke said that the 2 to 4 maf conservation efforts will inform the post-2026 actions.

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

Report from the Central Arizona Water Conservation District (CAWCD). Ken Seasholes, CAWCD Resource Planning and Analysis Manager, started his report by reviewing Arizona's contributions to Lake Mead. He pointed out that in 2022, Arizona's contribution was more than the 2007 guidelines,³ but that much larger actions were necessary. Mr. Seasholes indicated that a Tier 2a shortage is currently anticipated for 2023 under operational neutrality, which, under the 2007 guidelines and the LBDCP, correspond to a reduction of 592,000 acre-feet in CAP water, leaving roughly 1 maf left within the CAP system for delivery. He indicated this would be the starting point for the additional 2 to 4 maf in reductions being discussed. He showed how Arizona's supply of the Colorado River is distributed among its users and shared the key provisions for shortage sharing. He also identified the diversity of CAP water end-uses and noted that all users are impacted by shortage, but that the specific impacts vary. CAWCD staff will continue to coordinate closely with ADWR and the AWBA to understand the potential implications for the AWBA.

Chair Buschatzke emphasized that the chart provided by Mr. Seasholes showing the effects of potential additional supply reductions was purely illustrative and in no way

³ Colorado River Interim Guidelines for Lower Basin Shortages and Coordinated Operations for Lake Powell and Lake Mead.

indicative of a proposal being discussed. He added that regarding all the different types of water uses, Arizona has unique challenges and possible opportunities with both CAP and non-CAP Tribal water users, which will play into the outcome either in a collaborative state proposal or a unilateral action by the federal government. California and Nevada do not face the same challenges since they have few or no issues related to Tribal water uses. There are great complications, especially with Tribes that settled for low-priority water.

Commission member Olsen indicated that the chart shows a slight cut into the M&I Priority pool in 2023 and asked what the percentage cut would be. Mr. Seasholes responded that current CAP projections under the Tier 2a shortage illustrated would be about 5,000 acre-feet or a little less than one percent. Chair Buschatzke pointed out that we are .95 feet above a Tier 2b shortage. If the intervening flows are 50,000 to 60,000 acre-feet less, it could result in a Tier 2b shortage condition.

Commission member Arboleda asked for clarification on the AS&R category in the pie chart presented. Mr. Seasholes answered that it reflects annual storage and recovery, which can occur from storage at both underground storage and groundwater savings facilities. The largest part of this category in yellow corresponds to the City of Tucson. It is used by all Tucson water providers as a method for satisfying the Assured Water Supply rules and meeting annual demands. Chair Buschatzke added that AS&R is equivalent to the use of a traditional water treatment plants. Commission member Arboleda also asked what the "Other" category represents. Mr. Seasholes answered that it corresponds to delivery through the CAP/SRP interconnect to water treatment plants that are physically receiving water.

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

Report on Recovery Planning. Ms. O'Connell informed Commission members that the AWBA Standard CAP M&I Firming Agreement was distributed to CAP subcontractors for review on April 26, 2022. Meetings were held on May 10 and 11, 2022 for subcontractors to ask questions and provide feedback. A revised draft is expected to be distributed soon. However, in the meantime, staff continues to coordinate recovery/firming options with stakeholders. Ms. O'Connell noted that staff also participated in the Recovery Planning Advisory Group meeting held on May 16, 2022, and that there would be continued coordination with ADWR, CAWCD and stakeholders on shortage preparation going forward.

Chair Buschatzke added that a special meeting might be scheduled in the middle of August to discuss potential action on the firming agreement. Commissioner Olsen expressed his approval.

Commission member Clark asked Chair Buschatzke for information on the final cost for recovery. Mr. Seasholes responded that CAP would keep the recovery rates aligned with delivery rates but added that there are a lot of uncertainties. Without target volumes, it is difficult to provide greater detail.

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 informed Commission members that the State Budget for fiscal year (FY) 2023 (adopted on June 22, 2022) no longer authorizes the use of 1.2 million by ADWR in water banking funds. Instead, ADWR will receive the funds directly from the state's general fund. The AWBA has been using withdrawal fees to meet these transfer requirements. Having these funds available will allow the remaining Firming ICS to be purchased at a faster pace, and also gives AWBA the ability to purchase additional supplies. Arizona's legislature, however, continued to authorize the use of \$200,000 in funds from the Arizona Water Banking Fund for FY 2023 to support the Arizona Navigable Stream Adjudication Commission (ANSAC). To that end, and on the previous actions of the AWBA Commission, staff recommended that the funds needed for the ANSAC transfer be taken proportionally from the Phoenix and Tucson Active Management Area withdrawal fee subaccounts.

Chair Buschatzke asked for a motion to approve the source of funds for FY 2023 Legislative Authorized Budget Transfers from the Arizona Water Banking Fund. Commissioner Arboleda entertained a motion to approve the transfer of \$200,000 proportionally from the Phoenix and Tucson Active Management Area withdrawal fee subaccounts in the Arizona Water Banking Fund for FY 2023 pursuant to House Bill 2862. Commissioner Clark provided a second to the motion. The motion passed unanimously. Chair Buschatzke commented that he would continue to advocate getting the \$200,000 back to the AWBA.

V. Discussion and Potential Action to Approve the Purchase and Sale Agreement for Long-Term Storage Credits between the AWBA and the Ak-Chin Community

Ms. O'Connell described the terms of the proposed LTSC purchase agreement with the Ak-Chin Indian Community. The agreement is for the purchase/sale of up to 13,394 LTSCs in 2022 (10,394 in the Phoenix AMA and 2,929 in the Tucson AMA). The cost is \$300/LTSC for a total cost up to \$3,996,900. The LTSCs will be purchased using 4-cent water storage tax funds from Maricopa and Pima Counties.

Chair Buschatzke asked if there were questions. There were none. Chair Buschatzke asked for a motion. Commission member Olsen moved to approve the purchase and sale agreement for long-term storage credits between the AWBA and the Ak-Chin Indian Community. Commission member Clark provided a second to the motion. Chair Buschatzke asked if there were questions from the public. There were none. There was no further discussion from Commission members. The motion was approved unanimously.

VI. Discussion and Consideration of Action to Approve the AWBA 2021 Annual Report

2021 AWBA Annual Report. Ms. O'Connell stated that the Annual Report had been distributed to the public for comments. Minor changes were made, as well as technical corrections to Table 14 regarding Indian firming volumes and the inclusion of potential recovery for interstate purposes. She also noted that the shortage projections under the Ten-Year Plan component of the report only go to 2026 because Reclamation generated the 5-Year Probabilistic Projections using the CRMMS-ESP instead of the Colorado River Simulation System, which does not provide results beyond the 5-year period.

Ms. O'Connell reported that there was no excess CAP water available for storage in 2021. The AWBA continued to acquire other resources to meet its firming objectives including purchasing of 7,863 acre-feet of LTSCs and 4,196 acre-feet of ICS Firming credits. The LTSCs were purchased using \$1.87 million of the \$10 million in water storage tax funds reserved by the CAWCD Board for this purpose. Since the remaining \$8.13 million can be carried forward, staff did not request the reservation of additional funds for 2023. The ICS Firming credits were purchased using \$1.19 million in withdrawal fees. She identified all credits accrued or acquired through 2021 and pointed out that 6,429 acre-feet of Firming Credits developed on-Reservation were extinguished to satisfy the AWBA's first firming requirement to the Community for 2022.

Ms. O'Connell reviewed other activities that occurred in 2021 including the renewal of water storage agreements with groundwater savings facilities, the release of the 2021 Storage Facility Inventory, and the memorandum of understanding with ADWR and CAWCD on potential water augmentation opportunities through the development of a Regional Recycled Water Program with the Metropolitan Water District of Southern California.

Ten-Year Plan. Dr. Bernat noted that the Ten-Year Plan analyzes potential activity for the 2023-2032 planning period to the extent possible. Because this year's Reclamation data cannot be extended beyond 2026, firming projections and estimates cannot be provided for the full ten-year planning period, as was done in the past. She added that staff was able, however, to provide recovery capacity for CAP M&I subcontractors for the 2023-2032 period. She then disclosed the different assumptions made in this plan. First, the AWBA is not expected to have excess CAP water available under this Ten-Year Plan. Second, the projected shortage reductions used are based on the 2007 guidelines and Drought Contingency Plan, and therefore do not address potential additional reductions on the Colorado River. Third, the AWBA will explore alternative resources for firming purposes but its ability to purchase LTSCs cannot be known in advance. Therefore, the Ten-Year Plan does not assume a certain volume of LTSCs that could potentially be acquired during this period. LTSC purchases will be determined annually under the Plan of Operation. Finally, she noted, because the AWBA would not have to distribute funds to ADWR in the future, it will have withdrawal fee funds

available to purchase all remaining ICS Firming credits by 2026.

The probabilistic projections for Lake Mead operating conditions were reviewed under Reclamation's scenario (May 2022), which determines the most likely operating tier each year. Tier 2a operating conditions are anticipated in 2023 with Tier 2b shortage reductions beginning in 2024. The likelihood of Tier 2b or Tier 3 operating condition is equal in 2025 (but operations under a Tier 2b in 2025 were selected because the probability of a Tier 3 shortage (33%) is less than a probability of Tier 2 (37%) shortage). Tier 3 shortage is anticipated in 2026.

Reclamation's anticipated shortages were used to select the most probable firming volumes. The cumulative firming volumes for the 2023-2026 period would be close to 270,959 acre-feet: 61,468 acre-feet for Tribal firming and 209,491 acre-feet for CAP M&I firming. On-River M&I contractors would not be affected by shortages during this period.

Dr. Bernat followed with the estimated recovery capacity needed by AMA for a Tier 3 shortage. In the Phoenix AMA, subcontractors will be firmed using two different recovery methods: independent recovery and CAWCD recovery. CAWCD has recovery partnerships with the CAGR and certain irrigation districts (GSFs) for up to 23,000 acre-feet per year in the Phoenix AMA. In the Pinal and the Tucson AMAs, only independent recovery method is anticipated, although CAWCD also has recovery agreements in these AMAs, particularly for interstate recovery.

Dr. Bernat pointed out that through 2026, the AWBA could be distributing 9% of its water storage tax LTSCs for CAP M&I firming and 36% of its credits to satisfy potential firming obligations to the Community. For the latter, the AWBA anticipates using all Firming credits before using LTSCs accrued on-Reservation. As for firming the White Mountain Apache Tribe, the AWBA would use withdrawal fee LTSCs from the Phoenix AMA. In addition, based on discussions with the Southern Nevada Water Authority, 5,000 acre-feet could be recovered for interstate purposes.

Chair Buschatzke asked if the remaining ICS Firming credits scheduled for purchase through 2026 (now that the AWBA will not have to transfer funds to ADWR) was part of the GRIC agreement. Ms. O'Connell confirmed that was the case.

Commissioner Arboleda asked whether there was a process to amend the Annual Report with regard to the ten-year planning projections. Ms. O'Connell responded that staff could provide an update at the next meeting if the information becomes available. She added that the information would also be updated in next year's Ten-Year plan since new information is presented each year.

Chair Buschatzke said that Reclamation used the CRMMS hydrologic model, which might be less optimistic. He also indicated that it may not accurately represent the infrastructure risk at Glen Canyon Dam that was discussed in Ms. von Gnechten's report. There could be large reductions if Lake Powell levels cannot be protected, and releases are reduced due to volumes associated with the river outlet works tubes. He noted there is still much

uncertainty.

Chair Buschatzke asked if there were additional questions. There were none. Chair Buschatzke asked for a motion to approve the 2021 Annual Report. Commissioner Arboleda moved to approve the 2021 Annual Report as submitted or with minor or technical changes, and direct staff to submit it to the Governor, the Speaker of the House, and the President of the Senate. Commissioner Clark provided a second to the motion. Chair Buschatzke asked for public comments. There were no comments. The 2021 Annual Report was unanimously approved.

VII. Discussion and Consideration of Action to Adopt the AWBA Administration Budget for Fiscal Year 2023

Review of FY 2022 Administration budget. Ms. O'Connell gave a brief overview of actual expenditures for fiscal year (FY) 2022. Expenses were less than estimated primarily because a Water Resources Specialist IV was not hired. However, the difference in overall expenditures was also related to the departure of the technical administrator in October, who was replaced in February, and the unanticipated salary adjustments that were made in the Fall. There were also no travel related expenditures.

Discussion and potential adoption of FY 2023 Administration Budget. Ms.

O'Connell reviewed the proposed administrative budget for FY 2023, which is reimbursement for the cost of services provided by ADWR and CAWCD. She noted that the estimated expenditures for personal services reflect the ten percent salary increases for all state employees identified in the state budget for FY 2023. She also recommended the addition of a new staff member for succession planning purposes, which was not included in the proposal. Total expenses, including all other costs, were estimated at \$612,951.

Chair Buschatzke asked what type of position the new staff might be and the salary costs. Ms. O'Connell responded that the salary of a Water Resources Specialist III (grade 23) would be around 65,000/year, and with employee related and indirect costs, would increase the budget by \$136,000.

Commissioner Olsen asked whether Ms. O'Connell would recommend funding the position in the budget for a full year or half a year, given her proposed retirement. Chair Buschatzke recommended having someone start in the Fall of 2022 for more than half a year.

Chair Buschatzke asked if there were additional questions. There were none. He asked for a motion. Commission member Olsen moved to adopt the Arizona Water Banking Authority Administration Budget for FY 2023 with the inclusion of a Water Resources Specialist III for the full year along with any employee's expenditures and indirect costs that may result, and any minor revisions. Commission member Clark provided a second to the motion. Chair Buschatzke called for public comments. There were no comments.

Chair Buschatzke asked for additional discussion by Commissioners. There were no additional comments. The motion passed unanimously.

VIII. Call to the Public

There were no additional comments.

Future Meeting Dates:

Wednesday, September 13, 2022

Wednesday, December 7, 2022

The meeting adjourned at 11:45 a.m.