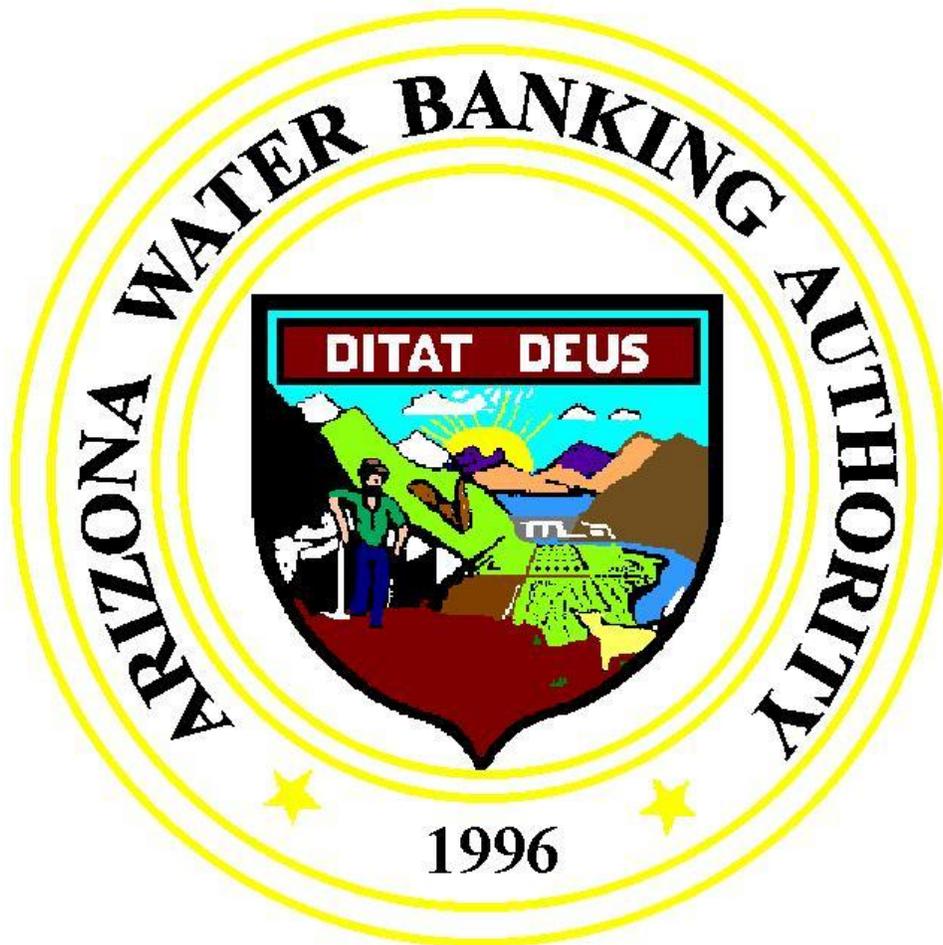


ARIZONA WATER BANKING AUTHORITY

INTERSTATE WATER BANKING REPORT
Fiscal Year 2011



Submitted

October 3, 2011

Interstate Water Banking Report Requirement

Arizona Revised Statutes §45-2473 mandates that the Arizona Water Banking Authority (AWBA) provide an interstate water banking accounting report to the Joint Legislative Budget Committee (JLBC) on or before October 1 of each year for the previous fiscal year if the AWBA was owed or received money pursuant to an interstate water banking agreement with the state of Nevada. Arizona Revised Statutes §45-2473 also mandates that the AWBA shall not spend, encumber, lend or in any other way use the monies received pursuant to the interstate water banking agreement except to pay the costs directly incurred in meeting the AWBA's obligations under the agreement. This statutory provision was enacted in 2009.

Pursuant to statute, the accounting report shall include the following:

1. An accounting of all monies received through the interstate water banking agreement.
2. An accounting of all disbursements made with monies received through the interstate water banking agreement, including monies use to purchase or store water or otherwise fulfill contractual obligations with the state of Nevada under that agreement.
3. An accounting of any prepaid monies to the Central Arizona Water Conservation District (CAWCD).
4. An accounting of any monies received under the interstate water banking agreement that are placed in an account with the state treasurer.
5. Any contract that obligates the AWBA to pay or disburse these monies to any other entity, including the CAWCD.

Interstate Water Banking Agreement and its Amendments

On July 3, 2001, the Agreement for Interstate Water Banking among the AWBA, the Southern Nevada Water Authority (SNWA) and the Colorado River Commission of Nevada (CRCN) (Interstate Agreement) was executed¹. Under this Interstate Agreement, the AWBA agreed to use its "best efforts" to store water in Arizona in an amount sufficient to develop an aggregate total of 1.25 million acre-feet of long-term storage credits. Those credits would then be recovered to develop Intentionally Created Unused Apportionment (ICUA) for Nevada as a temporary supply of water to allow Nevada time to develop other long-term water supplies. Any water stored for Nevada was water that could not be utilized by water users in Arizona. Nevada would pay the full water delivery and storage costs in addition to all costs associated with recovery of the long-term storage credits. This Interstate Agreement (as amended) is the agreement that makes the AWBA subject to the provisions of A.R.S. §45-2473.

In 2004, Nevada began exploring alternative ways to meet their water supply needs and approached Arizona with a proposal to amend the Interstate Agreement in such a manner that

¹ For purposes of this discussion, the SNWA and the CRCN will be collectively referred to as "Nevada".

Nevada's water supply could be made more secure in the shorter term. The intent of the amendments was to assure Nevada access to the full 1.25 million acre-feet anticipated under the Interstate Agreement. Nevada would continue to bear the full cost of storing and recovering CAP water. To insure the 1.25 million acre-feet of credits could be provided at no cost to Arizona, Nevada would also provide \$100 million to the AWBA to ensure that Arizona could acquire additional water resources if conditions warranted.

The Amended Agreement for Interstate Water Banking (Amended Agreement) was approved by the AWBA Commission on December 9, 2004 and executed on February 3, 2005. It included the following changes: (1) guaranteed Nevada a total of 1.25 million acre-feet of credits; (2) recognized that water other than Colorado River water may be the source of water stored to obtain long-term storage credits; (3) Nevada would pay the full cost of delivery, storage and recovery in addition to the \$100 million to mitigate the risk of the guarantee; (4) identified a set schedule for recovery of long-term storage credits; and (5) provided that a sufficient supply of credits would be recovered to allow Nevada to use up to 340,000 acre-feet during a declared shortage on the Colorado River.

On April 1, 2009, the AWBA approved and executed the Second Amended Agreement for Interstate Water Banking (Second Amended Agreement). Recognizing economic conditions, the Second Amended Agreement provides for increased flexibility in administering the contract, but there were no changes to the provisions requiring Nevada to pay the full cost of storage and recovery or Arizona's obligation to create 1.25 million acre-feet of long-term storage credits. The flexibility in the new agreement has allowed the parties to change the annual payment schedule to accommodate changing water supply conditions.

The Second Amended Agreement was modified by letter agreement dated December 8, 2010. This modification allowed the AWBA to forego both storage and the development of ICUA for Nevada through calendar year 2014. Acknowledging there would be no storage, the payment schedule was also modified to extend the payment date provision by six years. Nevada's obligation to make 10 payments of \$23 million, less the funds previously received, resumes in 2015 and ends in 2024.

Interstate Accounting

Pursuant to the Second Amended Agreement, funds are to be received by the AWBA from SNWA in two ways:

1. A payment of \$100 million to guarantee that AWBA can meet the obligation to develop 1.25 million acre-feet of long-term storage credits. This money is intended to be used to develop alternative water resources to meet obligations to Nevada. Any alternative water supplies developed under the Second Interstate Agreement that are not needed to meet the Nevada obligation would be available for Arizona water users. This payment was made upon request in two installments in June, 2005 and October, 2005 and deposited into a Resource Account. If the \$100 million is not needed to insure the AWBA can meet its contractual obligation, then it continues to be available to Arizona for whatever purpose deemed appropriate.

To date, \$19,649,616 has been legislatively transferred from the Nevada Resource Account. The \$19.65 million equates to approximately 200,000 acre-feet of water not stored by the AWBA that could assist it in meeting the State's obligation for Indian firming, interstate banking, and providing supplies to meet Arizona water users' demands during times of shortage.

2. A sum of \$230 million was scheduled to be paid in 10 annual payments of \$23 million beginning in 2009; deposited into an Operating Account. Money in the Operating Account will be used to pay CAWCD for the cost of water delivery and to pay facility operators for storage. As previously discussed, the AWBA and SNWA executed a letter agreement on December 8, 2010 that modifies the payment schedule with a start date of 2015 and an end date of 2024.

It is important to note that although this report is based on fiscal year accounting, the AWBA operates on a calendar year. A.R.S. § 45-2456 requires that by January 1 of each year, the AWBA adopt a Plan of Operation for that calendar year. Along with adoption of the annual Plan of Operation (Plan), funds are committed for the purchase, delivery, and storage of water for that calendar year.

The AWBA Plan for 2010 approved in December, 2009 did not include storing water for Nevada because of limited water availability to the AWBA. However, additional water supplies became available later in the year. The 2010 Plan was consequently amended on September 15, 2010 to include 19,000 acre-feet of storage on behalf of Nevada. The water delivery and storage costs totaled \$3.83 million and were paid from the \$12.67 million in operating funds identified in last year's fiscal year report as monies disbursed to CAWCD. The funds were made available subsequent to last year's report from the reconciliation of 2009 water delivery and storage costs. No interstate water was delivered in the first half of calendar year 2011.

The AWBA has accrued a total of 600,651 acre-feet of credits on behalf of Nevada through calendar year 2010. These credits amount to about 48% of the total 1.25 million acre-feet of water storage guaranteed to Nevada.

INTERSTATE ACCOUNTING - Fiscal Year 2010-2011					
Interstate Accounts	Beginning Balance (\$)	Received from Nevada ² (\$)	Disbursements (\$)	Prepayment Forwarded to CAWCD ³ (\$)	AZ State Treasury End of FY Balance ⁴ (\$)
Resource	5,078 ¹	0	0	0	5,114
Operating	18,000	0	0	0	18,127

¹ Interest accrued prior to, but deposited after Legislative transfer in FY 2009, which had left a zero balance.

² Initial payment of \$100 million deposited into a “Resource Account” in 2005. Ten subsequent payments of \$23 million (minus \$12.685 million received in 2009) are now scheduled to begin annually in 2015 to be deposited into an “Operating Account” (see Interstate Accounting section for description of payment modification).

³ Prepaid monies forwarded to CAWCD for delivery and storage of water on behalf of SNWA.

⁴ End of fiscal year balance, including accrued interest, in subaccount at Arizona State Treasurer’s Office.