

Discussion Paper for the Expenditure of \$8 Million Available from the Arizona-Nevada Shortage-Sharing Agreement

As part of the Basin States proposal Arizona and Nevada agreed on how the reduction caused by the shortage criteria identified in the proposal would be shared between their states. Nevada's interpretation of the Basin Project Act for sharing shortage was that their state had minimal exposure to shortages. Arizona's interpretation was that Nevada would suffer 7.4 percent of the reduction apportioned to the two states when a shortage was declared. Arizona and Nevada ultimately agreed that Nevada's share of the shortage would be 4 percent. Four percent has historically been the percentage the United States Bureau of Reclamation (Reclamation) has used to model shortage operations. Nevada also agreed to provide \$8 million to help mitigate any impact that might be caused to Arizona's water users for accepting this reduced share.

The \$8 million will be made available to the Arizona Water Banking Authority (AWBA) upon Reclamation's adoption of the Basin State's proposal for the operation of the Colorado River reservoirs during the interim period. The AWBA has the responsibility to determine how the \$8 million will be spent to help mitigate impacts to Arizona's water users.

The following are potential options for mitigating impacts:

Option 1. The AWBA would use the \$8 million to purchase and store water and accrue long-term storage credits (credits). These credits could then be used to meet the firming obligation of the AWBA. The AWBA would establish a sub-account under its long-term storage account for credits earned with the \$8 million.

Pro: This gives the AWBA the greatest flexibility in meeting its future obligations.

Con: This does not recognize that certain users will be impacted before other users.

Option 2. The AWBA would recognize and identify that certain users will be impacted before other users and use the credits to assist those users, while keeping some credits in reserve for the AWBA's general obligations. An example of entities that would be impacted first are Post-1968 Colorado River municipal and industrial (M&I) users and the AWBA in its obligation to firm Indian settlement water. The AWBA would establish sub-accounts for these users under its long-term storage account in order to reserve credits for these entities.

Pro: The AWBA would reserve credits to recognize that some users are impacted first but would retain some flexibility.

Con: Credits that are reserved might not be needed but would have been tagged for specific users.

Option 3. The AWBA would reserve the entire quantity of credits accrued with the \$8 million for the users that will be impacted first.

Pro: This provides assurances that adequate credits will be available to mitigate reductions caused by the Arizona-Nevada Shortage-Sharing Agreement for those entities.

Con: This reduces the AWBA's flexibility to meet its obligation to other Arizona M&I users.

Option 4. The AWBA will set aside the \$8 million at the State Treasurers Office and use it in the future to financially support entities that are impacted by assisting in the recovery of credits during declared shortages. For example, assistance could be provided through the payment of replacement costs by the AWBA for General Fund credits that have been used by on-river M&I users, or as part of a comprehensive deal to firm Indian settlement water.

Pro: This gives the AWBA flexibility to use money to mitigate impacts. It also does not put an additional burden on already reducing AWBA supplies.

Con: This may be attractive for other purposes and ultimately not available for AWBA purposes.