

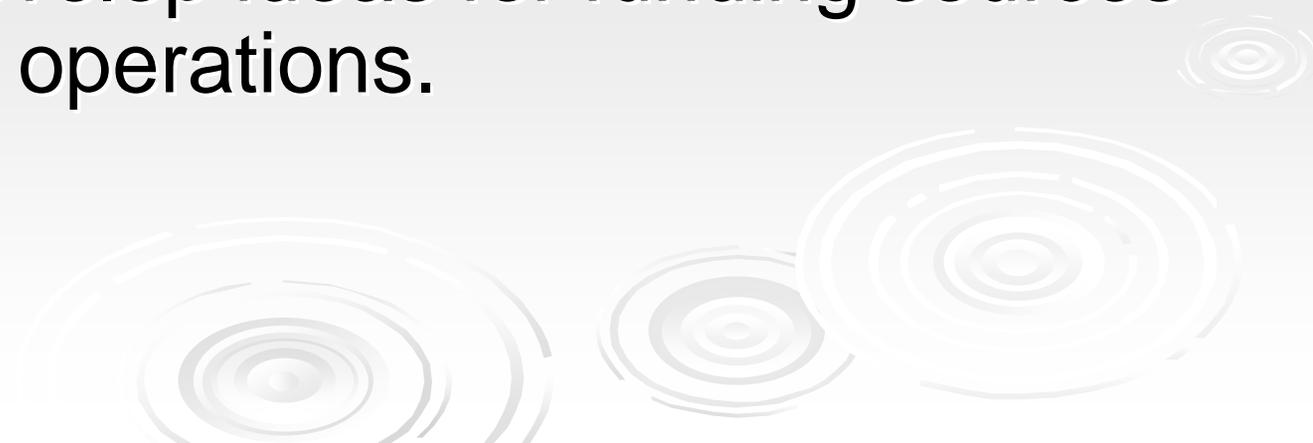
ADWR Funding Strategy

For FY 2010 and Beyond



Background - Budget

- Early in 2009, the Governor's office asked ADWR to begin looking at ways to become self-funded, given state revenue shortfalls anticipated for the next several years and other budgetary constraints.
- ADWR immediately solicited stakeholder input to develop ideas for funding sources for ADWR operations.



Background - Budget

- The Director asked staff to further develop various funding options, from partial funding to supplement General Fund appropriations, to a full self-funding strategy.
- We are asking stakeholders to be part of the discussion of probable options to pursue.
- Faced with a probable 15% permanent budget reduction (\$2.7 million) on January 1, 2010, this would mean a 30% reduction for FY11 without counting any additional adjustments for FY10 that may be required or additional cuts that the FY11 deficit may cause.
- Under this scenario, ADWR's FY11 General Fund appropriation would be about \$12 million and we would cut about 85 people from our workforce, leaving ADWR a staff of about 110 people.



The 15% Plan

- There is a negative consequence to whatever path or program we propose cutting. We developed our proposed cut based on the following principles:
 - Why was ADWR formed?
 - What is our core function?



After the Cuts. . .

- How do we rebuild important services if the budget cuts occur?
 - Revenue deficit will continue to grow for the next few years.
 - ADWR requires new revenue options that are not General Fund.



Option 1: Status Quo

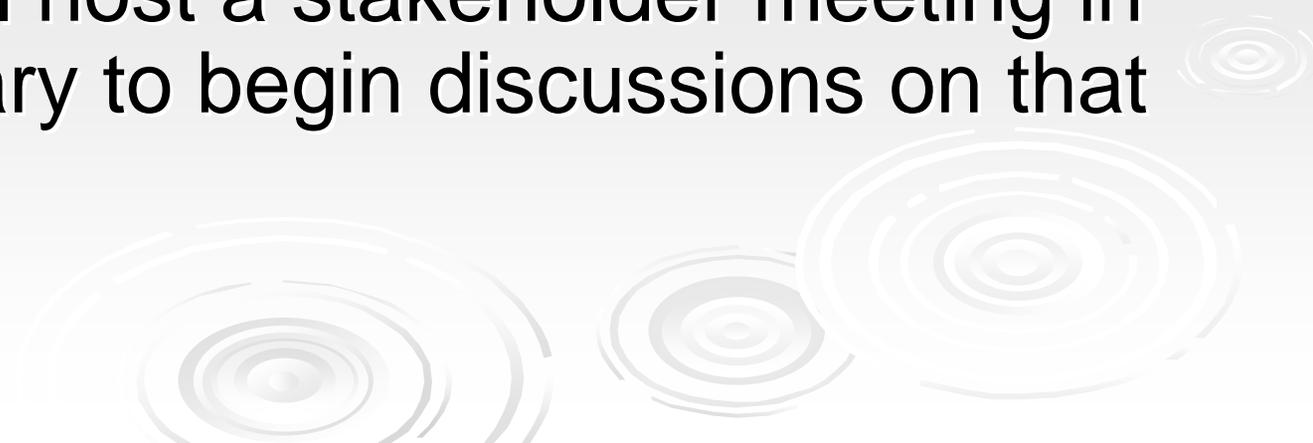
- Reduce the ADWR workforce by 85 employees.
- We do not believe that this is a viable option.
- ADWR's expertise and resources for sound water management throughout Arizona promote economic development and smart planning.
- Eliminating them is not in the best interest of the State.



Option 2: Supplemental Funding Sources

- Increase fees to reflect actual cost of permitting and move to hourly billing. Using the ADEQ methodology results in a fee of \$118/hour.
- Establish an Annual Registration Fee for all permits required to file annual report.
- Create a new Water Resources Fund where most fees will be redirected for the exclusive use of ADWR groundwater and surface water management, providing flexibility for the Director to utilize fee revenue where it is needed most.

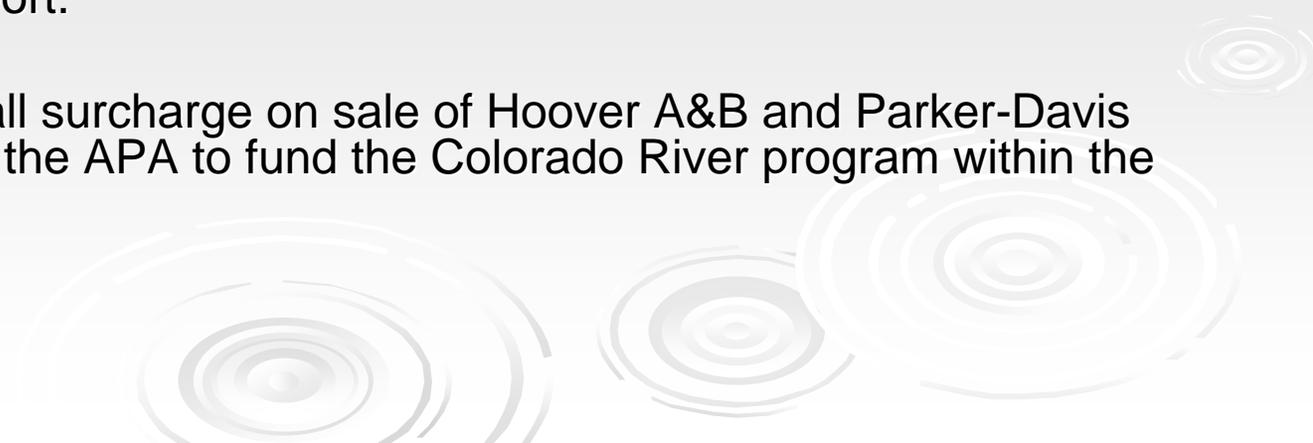
Option 2: Supplemental Funding Sources

- ADWR recognizes such a substantial increase in fees requires a substantial increase in permitting efficiencies.
 - We have initiated a process redesign to obtain a 15% improvement in efficiencies across all our permitting programs.
 - ADWR will host a stakeholder meeting in mid-January to begin discussions on that effort.
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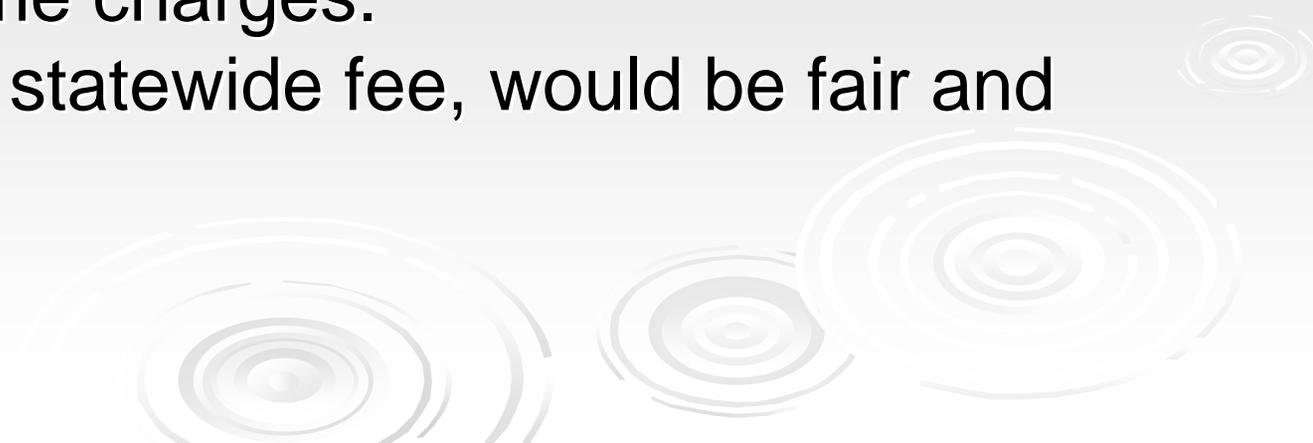
Supplemental Funding Sources

- Increase in Dam Safety Fees
 - Increase construction permitting fees to maximum of 2.0% of project costs currently allowed in statute.
 - Increase inspection fees to reflect actual costs. Graduated fee scale based on total crest length of the dam plus appurtenant embankments and saddle dikes.
 - The Department would seek legislative authority allowing flexibility for the Director to utilize Dam Repair Fund to support Dam Safety Program.

Option 3: Full Self-Funding

- In addition to the full cost recovery of fees, other funding streams would include:
 - A water use fee on water service from municipal water providers, public and private. Arizona does not now charge for use or management of water, a state resource.
 - Increase groundwater withdrawal fee in all AMAs to the statutory maximum of \$5/AF or alternatively, redirecting existing fees to ADWR operations.
 - Institute a new Adjudications fee to cover the cost of the Department's technical support.
 - Institute a small surcharge on sale of Hoover A&B and Parker-Davis power sold by the APA to fund the Colorado River program within the Department.
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- The bottom right corner of the slide features a decorative graphic of several concentric, light gray circles that resemble ripples on water, arranged in a cluster.

Full Self-Funding Options

- “Water Use Fee” of \$0.05/1,000 gallons sold assessed against all customers of all water providers statewide (>425).
 - Would generate between \$17 million and \$20 million to be used to support ADWR functions generally.
 - Would be a very small increase to a customer’s bill, with an average less than 1.5% of monthly bill for volume charges.
 - Would be a statewide fee, would be fair and equitable.
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Full Self-Funding Options

- “Water Use Fee” (continued)
 - Yuma customers would pay: <1.47%
 - Flagstaff customers would pay:<1.27%
 - Phoenix customers would pay:<1.53%
 - Tucson customers would pay:<1.08%
 - Bisbee customers would pay:<1.08%
 - Kingman customers would pay:<1.58%
 - Prescott customers would pay:<1.12%

Full Self-Funding Options

➤ “Water Use Fee” (continued)

- Advantages include:

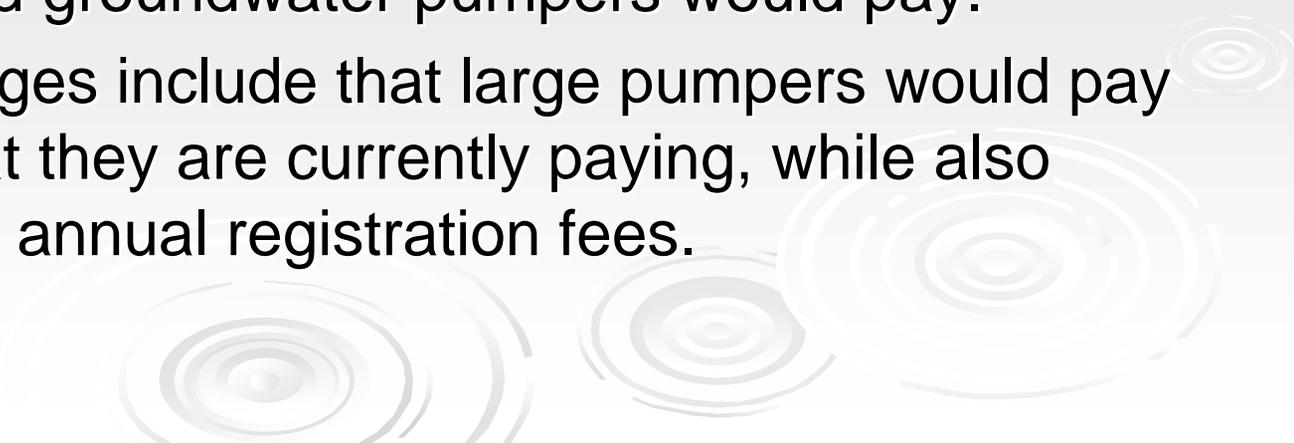
- Simple to assess, collect and remit
- Customers of all water providers would pay
- Generates sufficient revenue to fund most of ADWR required costs.

Disadvantages:

- A Prop 108, requiring a 2/3 vote



Full Self-Funding Options

- Increase in Groundwater Withdrawal Fees
 - Increase fees to the maximum of \$5/AF currently allowed in statute and redirect to support ADWR programs in support of the AMAs.
 - Would provide about \$6million-\$7million in revenue.
 - Advantages include existing authority and billing/collections mechanisms in place. Fee is fair as all permitted groundwater pumpers would pay.
 - Disadvantages include that large pumpers would pay double what they are currently paying, while also paying new annual registration fees.
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Full Self-Funding Options

- Increase Groundwater Withdrawal Fees (continued)
 - Alternatively, assuming increased permitting fees and annual registration fees proceed as planned, temporarily redirect the existing \$2.50/AF withdrawal fee that supports AWB activities to provide bridge funding for the Department until sufficient fee revenue is collected.

Full Self Funding Options

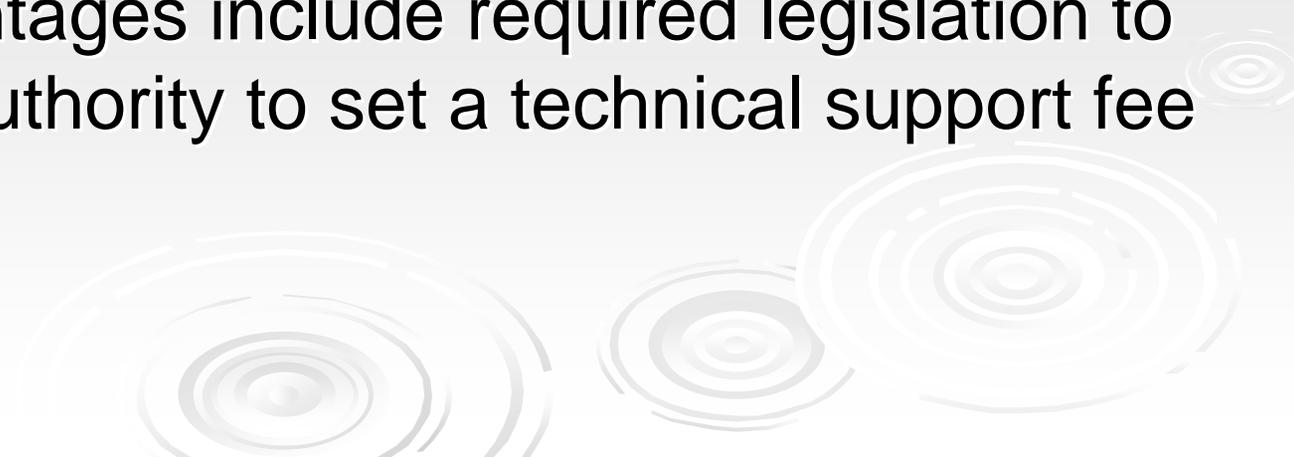
➤ Adjudication Technical Support Fee

- Current costs to conduct required technical support activities range from \$1.5million to \$2 million. These costs are assumed entirely by the General Fund; no other fees are assessed to support this ADWR program.
- The annual technical support fee proposed would be in a graduated form. Those with the most to gain from the Adjudication by increasing certainty and reducing risk related to water rights, will pay more for the activities required to complete the necessary work.

Full Self-Funding Options

- Adjudication Technical Support Fee (continued)
 - A graduated fee scale that would look like:
 - Individuals - \$25 annual fee per claim
 - Corporations, municipal corporations, the State, political subdivisions, associations and partnerships –for claims <1KAF, \$25 annual fee and for claims >1KAF, \$0.06/AF annual fee.
 - Court will not consider a claim unless ALL fees have been paid.

Full Self-Funding Options

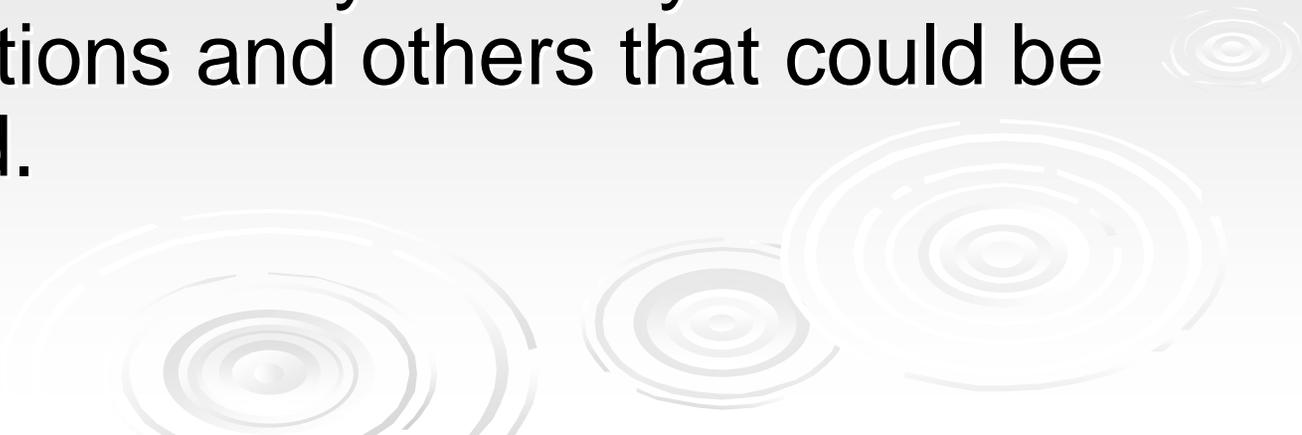
- Adjudication Technical Support Fee (continued)
 - Advantages include a format and mechanism to pay that already exists in statute and is known to claimants. Billing process already exists.
 - Disadvantages include required legislation to secure authority to set a technical support fee in rule.
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Full Self-Funding Options

- Small Surcharge on sale of Arizona power generated at Hoover, Parker and Davis dams.
 - Arizona Power Authority currently markets this power to approximately 40 contractors within Arizona.
 - The Department would seek legislative authority to add a small surcharge sufficient to generate about \$1 million to support fully the ADWR Colorado River programs.

Next Steps

- Options presented today provide mechanisms to generate sufficient revenue to adequately fund Arizona's water resource management programs and functions.
- Provide us your thoughts! ADWR solicits written comments by January 4th on these funding options and others that could be considered.



Next Steps

- ADWR will need to pursue all or some combination of funding options in time for the FY11 budget.
- After reviewing constructive comments and additional ideas, ADWR will hold a second stakeholder meeting in early January to share our direction going forward.



Questions??

- Written Comments should be directed to:
 - Fred Breedlove, Deputy Counsel. Email febreedlove@azwater.gov or Director, ADWR
3550 N. Central Avenue, Phoenix, AZ 85012.

