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**NOTICE AND FINAL AGENDA OF MEETING OF THE
ARIZONA WATER BANKING AUTHORITY COMMISSION**

Pursuant to A.R.S. § 38-431.02, notice is hereby given that there will be a meeting of the Arizona Water Banking Authority Commission on **June 19, 2013 at 10:00 a.m.** at the Arizona Department of Water Resources, 3550 North Central Avenue, Phoenix, Arizona 85012, Upper/Middle Verde conference room on the 2nd floor. The meeting is open to the general public. Members of the Commission will attend either in person or by teleconference.

The agenda for the meeting is as follows:

- I. Welcome/Opening Remarks
- II. Approval of Minutes
 - March 20, 2013 meeting
 - April 24, 2013 special meeting
- III. Water Banking Staff Activities
 - Deliveries
 - Update on Third Amended and Restated Interstate Banking Agreement
 - Use of water storage tax to replenish CAWCD reserves
 - CAWCD 4¢ *ad valorem* tax levy and Board resolution
 - Recovery of water stored by AWBA (joint planning activities with CAWCD and ADWR)
 - On-going Indian settlement negotiations
- IV. 2012 Annual Report
 - Overview of 2012 Annual Report
 - Discussion regarding Ten-Year Plan 2014-2023
 - Potential approval of 2012 Annual Report and Ten-Year Plan
- V. FY 2014 Administrative Budget
 - Overview of FY 2014 administrative budget
 - Potential adoption of FY 2014 administrative budget
- VI. Call to the Public

Future Meeting Dates:

Wednesday, September 18, 2013
Wednesday, December 18, 2013

Dated this 18th day of June, 2013

* This is a tentative agenda that is subject to change prior to the scheduled meeting date. Please contact the AWBA at (602) 771-8487 24 hrs in advance of meeting for final agenda.

All visitors must use the south elevators; please stop at the 2nd floor to sign-in and receive a visitor's badge. Badges are to be displayed at all times. Visitors are also required to sign out and return their badges. Thank you for your assistance.

Persons with a disability may request a reasonable accommodation, such as a sign language interpreter, by contacting Michelle Moreno at 602-771-8530 or 602-771-8501 (TDD). Requests should be made as early as possible to allow time to arrange the accommodation.

I. Welcome/Opening Remarks

NOTES:

II. Approval of Minutes of Meeting

NOTES:

Move approval of March 20, 2013 AWBA meeting minutes

Move approval of the April 24, 2013 AWBA special meeting minutes

ACTION:

Approve minutes with any needed corrections.

**ARIZONA WATER BANKING AUTHORITY
Draft Minutes**

March 20, 2013

Arizona Department of Water Resources



AUTHORITY MEMBERS
Sandra Fabritz-Whitney, Chairman
Maureen R. George, Vice-Chairman
John Mawhinney
Clifford A. Neal
Jim Hartdegen

EX OFFICIO MEMBERS
Speaker Andy Tobin
Senator Gail Griffin

Welcome/Opening Remarks

Chairman Sandra Fabritz-Whitney welcomed the attendees. All members of the Authority were present except *ex-officio* members, Senator Gail Griffin and Speaker of the House Andy Tobin. Cliff Neal was present via teleconference. Chairman Fabritz-Whitney announced that Mr. Neal's appointment to the AWBA had been confirmed by the Legislature. She then welcomed two new members to the AWBA. Mr. Jim Hartdegen was designated by Pamela Pickard, President of the CAWCD Board, to represent her as an AWBA commissioner. Senator Griffin was designated by Senate President Andy Biggs to represent him as an *ex-officio* member on the AWBA. This is Senator Griffin's second time serving on the Authority having also served between November of 1997 and December of 2000.

Election of Commission Officers

AWBA Manager, Virginia O'Connell explained the process of electing officers to the AWBA indicating that members hold these positions for two years. The last elections were held in 2011. She noted Maureen George currently holds the position of Vice-Chairman and Lisa Atkins, who represented CAWCD President Pickard until this meeting, held the position of Secretary. Chairman Fabritz-Whitney opened the floor for nominations for Vice-Chairman and Secretary. John Mawhinney moved to re-appoint Maureen George as Vice-Chairman of the AWBA and he nominated Mr. Neal as Secretary. Mr. Hartdegen seconded Mr. Mawhinney's motions and the motions carried.

Approval of Minutes

Ms. George moved to approve the minutes of the December 19, 2012 meeting. Mr. Neal provided the second to the motion. The Authority approved the minutes of the December 19, 2012 AWBA meeting.

Interstate Water Banking Agreement

Nicole Klobas, attorney for the AWBA, updated the members on the draft Third Amended and Restated Agreement for Interstate Water Banking. She referred the members to a "Summary of Changes" made to the draft agreement since the last AWBA meeting, including changes made earlier that day to Article I, highlighted in blue. There were three such changes. The first change clarifies the use of long-term storage credits accrued as of the effective date of the instant agreement. The second change clarifies CAWCD rate setting provisions. The final change made clear that, in setting Interstate Recovery Schedules, opportunities for cost reductions will not burden Arizona water users.

Mr. Mawhinney asked if the changes in blue were requested by the Southern Nevada Water Authority (SNWA). Ms. Klobas responded that they were requested by an AWBA member. Chairman Fabritz-Whitney indicated that Mr. Tom Maher of SNWA was present in the audience to answer questions.

Mr. Mawhinney moved to authorize the Chairman of the AWBA to sign the Third Amended and Restated Agreement for Interstate Water Banking upon approval by the SNWA and the Colorado River Commission of Nevada absent substantive changes. Ms. George seconded the motion and the motion carried.

Water Banking Staff Activities

Deliveries. Ms. O'Connell directed the members to the monthly delivery graphs in their books. She briefly reviewed 2012 deliveries noting the AWBA expected to deliver about 120,000 AF, but because additional water became available from water turned back by other CAP customers, actual deliveries were slightly below 134,000 acre-feet. Final deliveries for storage were 78,026 acre-feet for the Phoenix AMA, 20,586 acre-feet for the Pinal AMA and 34,361 acre-feet for the Tucson AMA. In addition, a direct delivery of 1,000 acre-feet was made to the Southside Replenishment Bank. Finally, there were no interstate deliveries in 2012.

Regarding 2013, Ms. O'Connell explained that AWBA deliveries through February are essentially on target. She pointed out that while no deliveries were made in the Phoenix AMA so far this year, the scheduled deliveries could easily be made up in the following months and that she did not anticipate any storage issues. She indicated deliveries started off slow in the Pinal AMA but deliveries in February made up the difference. To date, deliveries in Pinal have been to the Maricopa-Stanfield GSF. For the Tucson AMA, deliveries are right on the mark with all deliveries in the Tucson AMA being to Tucson Water's SAVSARP facility.

Meetings. Ms. O'Connell highlighted three meetings attended by staff since the December meeting.

Tucson AMA Storage Partners. Ms. O'Connell indicated that staff has started working on the AWBA's Ten-Year Plan which is due in June. There are typically three main components that are evaluated when developing the Plan: water availability, storage capacity and funding. On February 11, staff met with staff from Tucson Water and Metro Water District to discuss how much storage capacity might be available to the AWBA in the Tucson AMA.

Ms. O'Connell explained that Tucson Water is the largest CAP M&I subcontractor in the Tucson AMA with a subcontract amount of over 144,000 acre-feet. Tucson Water uses its subcontract water to meet its demand through annual storage and recovery at its facilities: the Central Avra Valley Storage and Recovery Project (CAVSARP) and the Southern Avra Valley Storage and Recovery Project (SAVSARP). Tucson Water also stores water at Pima Mine Road where they are co-owners with CAWCD. Water not recovered to meet annual demands rolls over to become a long-term storage credit that can be recovered in the future. Because Tucson Water operates in this manner, AWBA storage at these facilities creates an opportunity for firming Tucson Water's M&I subcontract supplies during shortages. From the discussions, Tucson Water is also

interested in the AWBA maximizing storage at its facilities, primarily SAVSARP. Tucson Water is currently evaluating its ability to provide additional capacity to the AWBA and will be getting back with staff shortly.

Metro Water also has interest in the AWBA utilizing the Avra Valley storage facility. Staff has indicated that on average, about 1,000 acre-feet per year of capacity would be available to the AWBA. Based on the discussions, Metro also supports AWBA storage at SAVSARP as Metro provides water to a development located nearby and recovery would be in the vicinity of SAVSARP.

AWBA has tentatively scheduled a meeting for April 15th, after the Tucson AMA Groundwater Users Advisory Council (GUAC) meeting, to get feedback from Tucson AMA stakeholders on AWBA storage in the AMA.

Colorado River Modeling. AWBA staff also attended a meeting with the Colorado River modeling group on March 6th. The group, comprised of ADWR, CAWCD, and AWBA staff, is continuing its discussions on the Arizona baseline Colorado River Simulation System (CRSS) Modeling assumptions. The three organizations have agreed to use the same baseline modeling assumptions when evaluating the availability of Colorado River supplies. Each organization may modify the assumptions to analysis specific issues important to that organization, however any deviations from the agreed upon assumptions would need to be discussed within the modeling group and clearly documented. The AWBA is still planning a joint workshop in the end of May/June timeframe to discuss the modeling assumptions.

CAWCD Board Meeting and Special Session. Finally, on March 7th, AWBA staff attended the CAWCD Board meeting and Workshop on CAWCD reserves and financial issues. Ted Cooke, Assistant General Manager, provided an overview of the challenges facing CAP, the timing of these short and long-term issues and the tools CAWCD can use to address the issues. Ms. O'Connell explained an immediate issue is that current cost estimates (February 2013) are higher than the adopted firm rates for 2013/2014 and advisory rates for 2015 through 2018. A primary reason for this is increasing energy rates. The cost of natural gas is less than the cost of the energy generated at Navajo Generating Station (NGS) making it difficult for CAWCD to sell its surplus energy, resulting in a reduction of revenues that would have been used to replenish the strategic reserves. Other costs include pre-contract costs associated with obtaining a new NGS lease and pre-BART (best available retro-fit technology) regulatory costs for NGS. CAWCD staff is evaluating what can be done about the shortfall to the strategic reserves first and then focusing on 2014 rates.

Ms. O'Connell directed members to two tables, excerpts from CAWCD's presentation. The first table identifies the tools CAWCD can use to address the shortfall, including use of the 4¢ *ad valorem* tax. Also included, is the potential for extending the collection of the tax beyond 2016 (currently expires January of 2017) and using those funds.

Ms. O'Connell explained the second table shows estimates of funding resources

available to CAWCD. She referred Authority members to the box on the bottom of the slide specific to the 4¢ *ad valorem* tax. Line 5a identifies \$70 million. This is the amount of money CAWCD has independently determined that it could currently utilize from the 4¢ *ad valorem* tax fund without impacting the AWBA's ability to do M&I firming. She clarified that the \$70 million represents a portion of the funds that already exist in the District's account.

Line 5b identifies the amount available from monies collected from 2010 through June of 2013. Ms. O'Connell provided background information on CAWCD's 4¢ *ad valorem* water storage tax resolutions noting that from 2003-2008, the language in the resolutions specified that the monies collected would be used to defray the OM&R costs associated with the purchase of water by the AWBA for M&I firming and related administrative costs. In 2009, the resolution was changed to state the monies would be used to defray the OM&R costs associated with "underground storage", leaving off the reference to AWBA storage. In 2010, the language was again changed to simply state the monies would be used to defray the OM&R costs of the project. In 2012, CAWCD further modified the resolution to state monies would be used to defray capital repayment or OM&R costs.

Line 5c identifies monies from future collections that could be used and represents the total estimated amounts collected for each year. For 2013, it includes monies collected from July through December. Ms. O'Connell explained that CAWCD staff has not identified how much money would be needed; these are just tools available for CAWCD's use.

Chairman Fabritz-Whitney asked how the resolution aligns with legislation. Specifically, she asked if the funds are not used, should they be deposited into the AWBA fund. Tim Henley, Consultant to the AWBA stated that there is no provision that requires the funds to automatically be deposited in the AWBA fund. The decision is made before the tax is collected by the CAWCD Board.

Mr. Neal asked if there is \$140 million in the fund, does that mean \$70 million can be used for this new purpose leaving \$70 million to finish the work of the AWBA. It was his understanding that most of the storage for M&I firming needed to be done in the Tucson AMA, yet the \$70 million was collected primarily from taxpayers in Maricopa County. Ms. O'Connell responded that she did not know the details of the analysis, only that CAWCD staff had utilized 4-cent tax from all the counties. She acknowledged that the funds remaining would likely be from Maricopa County and added that CAWCD staff may have just focused on the total funds available and not taken it down to the county level. Chairman Fabritz-Whitney noted that the AWBA is still required to utilize the 4-cent tax for the benefit of the county in which it was collected. Ms. O'Connell reminded Authority members that the AWBA would not necessarily stop storing water when the numeric goals are reached. The goal is actually to store water so long as there is water, storage capacity and money available. CAP's analysis stopped at the numeric goals. Mr. Neal indicated that he would like to get a better handle on where the numbers for the chart come from.

Mr. Mawhinney asked who makes the decision to extend collection of the tax. Ms. O'Connell replied saying the Legislature. Mr. Hartdegen corroborated Ms. O'Connell

response referencing a typical sunset provision. Mr. Mawhinney asked if the extension could be limited to those counties still trying to reach their firming goals. Ms. O'Connell responded she was not certain, but that the amount collected in each county would need to be the same. Mr. Hartdegen suggested the legislation could be written in a way to accommodate Mr. Mawhinney's idea. Ms. George supported Mr. Neal's suggestion to look more closely into CAP's assumptions. Mr. Neal pointed out the irony in the fact that the 4¢ *ad valorem* tax monies were originally kept at CAWCD in order to avoid a legislative sweep and now it appears the monies are in danger of a CAWCD sweep.

Update on Indian Settlements. David Johnson, legal counsel for ADWR, gave the Authority members an update on the various Indian settlements: White Mountain Apache Tribe (WMAT), Hualapai Tribe and the Navajo Nation-Hopi Tribe. These settlements emerged in 2004 when the State of Arizona entered an agreement to reallocate approximately 67,000 acre-feet of CAP non-Indian agricultural (NIA) priority water. According to the agreement, Arizona would firm 8,724 acre-feet of NIA priority water to M&I priority water specifically for future Indian settlements. The state is working on the three indicated above but none have been settled.

Regarding the WMAT negotiations, Mr. Johnson explained the settlement discussions have been going on for three years. The agreement was approved by some of the parties in 2009. The detail concerning the AWBA relates to the State's agreement to firm up to 3,750 acre-feet of water. Mr. Johnson indicated the federal government will firm the same amount. The federal government approved the agreement in 2010 in the form of Federal legislation. Since then, the parties have spent the last two years conforming the agreements to the Federal legislation. The agreements have been signed by most Arizona parties including the Governor. Once all signatures have been secured, ADWR will submit the agreements to the Gila River and Little Colorado Adjudication Courts for approval. This is a requirement for enforceability. Once done, ADWR will submit the final agreement to the Secretary of Interior who will then issue a Record of Decision. At that juncture, the settlement will be approved and Arizona will be obligated to firm the 3,750 acre-feet of water. Mr. Johnson did not provide a timeframe, but did tell AWBA members that the parties expect to submit the signed agreements to the two adjudications courts in late 2013.

Mr. Johnson briefly mentioned the Hualapai and the Navajo-Hopi discussions. He indicated that no agreement is forthcoming this year for the Hualapai, but they do expect a firming obligation to be a part of the discussions. The state parties reached an agreement with the Navajo-Hopi tribes and that agreement did not include firming. These discussions are on hold as both the Navajo and Hopi Tribal councils did not approve the agreements.

Mr. Mawhinney asked where the money is coming from to firm the water for these settlements. Ms. O'Connell responded saying the AWBA can use general fund appropriations if available. The AWBA had been appropriated \$13.5 million to be used specifically for this purpose, but \$12.4 million was subsequently swept during the fiscal crisis. If general fund monies are not available, the AWBA can use withdrawal fees collected in the Phoenix, Pinal and Tucson AMAs. Mr. Mawhinney asked if withdrawal fees can be used for meeting Indian settlement obligations anywhere within the State. Ms. O'Connell responded that the withdrawal fees could be used for Indian firming

statewide. Chairman Fabritz-Whitney added that the use of withdrawal fees must still benefit the AMA where the fees were collected. Mr. Mawhinney asked if the 4¢ *ad valorem* tax could be used for Indian firming. Ms. O'Connell indicated no saying that such action would require a legislative change.

Update on Recovery Planning

Ms. O'Connell reviewed the Briefing Paper titled "Staff Consensus Recommendation on the Distribution of Long-term Storage Credits Accrued with 4¢ *ad valorem* Tax Monies, noting it covered one aspect of the distribution of these credits during shortages. She indicated that staff from the three organizations (i.e. ADWR, CAP and the AWBA) is recommending that the AWBA distribute these credits based on the following:

- Up to 20% of the entitlements for each of the three counties
- Credits used to benefit the county for which they were accrued
- Recovery schedule is consistent with statutes, rules and policies
- AWBA has credits available to firm supplies

Chairman Fabritz-Whitney asked if there is a separate policy paper that discusses how and for what purpose the credits will be distributed. Ms. O'Connell replied saying that the details of this briefing paper and the distribution of other AWBA credits would be incorporated into various sections of the Joint Recovery Plan to be discussed next. Chairman Fabritz-Whitney asked for further clarification on whether the AWBA would just give credits to CAWCD based on customer orders or if there will be a discussion on the use of AWBA credits, such as for storage, which had come up at previous meetings. She expressed concern that how the AWBA would decide is not addressed in the paper. Ms. O'Connell responded that the group had not yet developed a paper on that specific issue. This issue and others would be addressed in the Joint Recovery Plan, which will be reviewed initially by the Ad Hoc Recovery Group and also by Commission members. She noted that staff would be looking for direction from the Commission on any policies they might want developed to address the issues.

Ms. George asked if the amount distributed to CAP is 20% of entitlements or up to 20%. Ms. O'Connell replied that it is up to 20%. Ms. George asked if the assumption for when Assured Water Supply rule provisions kick-in, can water providers pump up to 80% even if they are not cut by 80%, positing that water providers could use more water during a drought. Ms. Fabritz-Whitney responded saying the exemption is based on actual use and not entitlement. Mr. Henley said the idea is that subcontractors can pump to get back to 80% not beyond 80%. Ms. George suggested the language in the briefing paper is not clear on this issue.

Ms. O'Connell introduced Laura Grignano, Senior Policy Analyst for CAP, to provide an overview of a paper titled "Recovery of Water Stored by the Arizona Water Banking Authority". Ms. Grignano referred the Authority members to the draft outline designed to flesh out what a Joint Agency Recovery Plan might look like. Ms. Grignano provided some history indicating there had been many recovery planning efforts to date which have established a valuable base of information. Still, she said, there is a strong desire by the stakeholders for more collaboration and coordination among the agencies involved. She hoped this effort will provide the planning level certainty that many desire.

Ms. Grignano explained that the draft outline includes most if not all of the major issues raised in the Ad Hoc Recovery Group as well as comments solicited from past recovery planning efforts. So far the feedback from the stakeholders in the Ad Hoc Recovery Group has been positive.

The Plan itself will be organized into three main parts. The first part will set the stage for future recovery and the players involved (i.e. clarifies roles of agencies and stakeholders). The second part will develop several plausible future recovery scenarios, and the last part will lay out how the necessary recovery will be implemented.

Ms. George asked for a projected schedule. Ms. Grignano indicated that there are no deadlines, but she expects to have something substantial for the June AWBA meeting.

Mr. Mawhinney asked a series of questions regarding how shortages would be taken including how Arizona would take shortage relative to other lower basin states, and how CAP would take shortages relative to on-river users, all leading to the root question of when the vaults of the AWBA will be open for the first time. He further wondered when Indian and M&I users would be affected. He asked about CAP discretion and what will happen to M&I subcontractors. He also asked what happens to people without subcontracts but who pay 4¢ *ad valorem* taxes. He wanted to know if the AWBA has discretion to give less than the 20% irrespective of the assured water supply rules.

Mr. Henley responded to Mr. Mawhinney's series of questions saying these are all great questions and most of them will be addressed in the Joint Recovery Plan. Regarding his root question of when the AWBA's vault will open, Mr. Henley replied that vault will possibly open up for the first time in the near-term (before 2025) on domestic contracts along the river depending on how much entitlement is being used. For everything else, the modeling indicates it could be around the 2040 timeframe. The second point where the vault could possibly open is to meet Indian firming obligations. Mr. Henley described CAP as having a good deal of discretion and indicated CAP will meet the needs of its subcontractors. Mr. Henley added the plan will not attempt to predict out 100 years but rather 40 years. Ms. Grignano corroborated Mr. Henley's comments that the Joint Recover Plan will answer most, if not all, of Mr. Mawhinney's questions.

Mr. Hartdegen asked when the AWBA was created. Ms. O'Connell responded saying 1996. Mr. Hartdegen then explained that he would not consider giving money to a bank and not know how to get the money out. He suggested that people get upset when they don't know what to expect and that efforts should be kicked-up a bit. He reflected that since his return to the CAP Board, he has been struck by how slowly things move. Mr. Neal suggested that, since Ms. Grignano has indicated that there will be a substantive document available in June, the AWBA should wait until it can review that document and decide how to proceed at that time. Chairman Fabritz-Whitney asked what "substantive document" means to staff. Ms. O'Connell replied saying a more complete recovery document. Chairman Fabritz-Whitney directed staff to reserve considerable time on the agenda for this topic at the next meeting. Mr. Mawhinney commented that he was very pleased with the work completed so far.

Ms. O'Connell asked Mike Lacey, Deputy Director of ADWR, to provide an update on the Ad Hoc Recovery Planning Group. Mr. Lacey explained the Ad Hoc Recovery

Group is made up of the three organizations (i.e. ADWR, CAP and ADWR) plus other interests from the three counties. The group was formed to vet issues or concerns regarding the recovery planning process. The Ad Hoc Recovery Group meets regularly to review products produced by the Interagency Recovery Group. The Ad Hoc group will be the first outside review of the Joint Recovery Plan before it goes to the public.

Ms. George expressed concern that there are no on-river interests sitting on the Ad Hoc Recovery Group. The outline provided by Ms. Grignano shows this effort goes beyond the three-county area and therefore creates the need for on-river interests to be represented. Ms. O'Connell responded saying as part of her responsibilities; she keeps Commission members informed and carries the on-river interests to the Ad Hoc Recovery Group meetings.

Evaluation of Future AWBA Storage

Ms. O'Connell directed members to the outline on the "Evaluation of Future AWBA Storage". She described how the outline was developed and indicated that much of what is described is already a part of the Ten-Year Plan process. As part of this second process, Ms. O'Connell suggested perhaps a matrix could be developed that reflecting attributes at the AMA level, such as locations where the AWBA has stored water to date relative to the goal for each AMA. She asked if this met the direction given by the Authority at the last meeting.

Mr. Mawhinney described one of his major concerns being a lack of clarity on what discretion the authority has to make decisions considering diminished resources including money and water. Given what he sees in the Joint Recovery Plan, there is very little discretion for the AWBA and it appears the AWBA's role is limited in the future. He questioned whether matters should be organized so decisions are made by another competent decision maker. He suggested staff look at a most-likely scenario of water, money and capacity over the next ten years and seriously look at the AWBA's role.

Chairman Fabritz-Whitney asked what role Mr. Mawhinney sees going away for the AWBA. He responded saying where the AWBA stores water appears to be fixed at this point and doesn't require the AWBA to make decisions. Whether or not the AWBA acquires a water supply has been shut down. If the AWBA is not making movement to acquire supply, then the AWBA should admit this. Mr. Hartdegen expressed concern that the AWBA acquiring a supply would just add one more entity to the list of others acquiring supplies. Mr. Mawhinney countered Mr. Hartdegen's statement indicating that the AWBA has obligations and no advances are being made on acquiring water. Mr. Hartdegen countered stating that people are looking for water.

Mr. Neal expressed concern that AWBA staff needs to complete its annual Ten-Year Plan by June and a primary purpose of the plan is to evaluate future storage by the AWBA. He recalled a concern expressed at a previous meeting that, in light of reduced water availability and storage capacity availability at preferred locations in Pima County this year, the AWBA decided to store at Pinal County GSFs rather than at less desirable locations in Pima County. Mr. Neal indicated that he would prefer that staff prepare the Ten-Year Plan with a focus on prioritizing storage in the Tucson AMA if water supplies will be limited instead of preparing another separate report. Mr.

Mawhinney agreed with Mr. Neal and indicated that he assumed the outline prepared by staff was intended to be part of the Ten-Year Plan. Ms. George agreed with Mr. Neal about focusing on the Tucson AMA because the storage is so far behind relative to other AMAs. Chairman Fabritz-Whitney summarized the direction for the Ten-Year Plan: focus on the Tucson AMA, evaluate possible alternatives for meeting the goals and Indian firming.

Call to the Public

Mike Block, Metro Water District, spoke representing the Southern Arizona Water Users Association (SAWUA). He indicated that while SAWUA is concerned about goals in other AMAs, SAWUA wants more storage in the Tucson AMA.

Kathy Ferris, Arizona Municipal Water Users Association (AMWUA), made two points. First, she indicated she is very happy with the progress of the Ad Hoc Recovery Group and she supports the outline. She indicated that she believes her clients would not oppose an on-river representative on the Ad Hoc Recovery Group. Second, she noted a number of issues needed to be worked through with regard to use of the 4¢ *ad valorem* tax for meeting CAWCD's financial shortfall. Consensus is needed on what statute does and does not allow and that the matter is a legal issue. There also needs to be an understanding of how the taxes collected prior to 2010 might be treated differently than monies collected afterward when the resolution changed. It is important that these issues are resolved to the satisfaction of the AWBA, CAWCD, and M&I stakeholders who are beneficiaries of the tax.

Robin Stinnett, Salt River Project, expressed appreciation for participating in the Ad Hoc Recovery Group and for the joint participation of the three organizations (CAP, ADWR and AWBA).

Chairman Fabritz-Whitney announced the next AWBA meeting is scheduled for Wednesday, June 19, 2013. Mr. Mawhinney moved to adjourn the meeting. Ms. George provided the second and the motion carried.

The meeting adjourned at 11:40 a.m.

ARIZONA WATER BANKING AUTHORITY
Draft Minutes – Special Meeting

April 24, 2013

Arizona Department of Water Resources



AUTHORITY MEMBERS
Sandra Fabritz-Whitney, Chairman
Maureen R. George, Vice-Chairman
John Mawhinney
Clifford A. Neal
Jim Hartdegen

EX OFFICIO MEMBERS
Senator Gail Griffin
Speaker Andy Tobin

Welcome/Opening Remarks

Chairman Sandra Fabritz-Whitney welcomed the attendees. All members of the Authority were present except *ex-officio* members, Speaker of the House Andy Tobin and Senator Griffin.

Discussion of CAWCD's use of 4¢ *ad valorem* taxes

Chairman Fabritz-Whitney called on Virginia O'Connell to provide a brief update on recent activities concerning CAWCD's proposed use of the 4¢ *ad valorem* water storage tax. Ms. O'Connell anchored back to the previous AWBA meeting when staff briefed the Commission on some of the financial issues facing CAP primarily due to increased Navajo Generating Station energy costs and the difficulty selling surplus energy due to lower natural gas prices. The result is a \$50 million shortfall in CAP's Strategic Reserve Fund. CAP is anticipating that this trend will continue, if not addressed, and consequently, CAP has been looking at different strategies for addressing the issue.

CAP has held several public meetings on this subject. At its March 7, 2013 study session, CAP described the problem and identified different tools available to address the issue including using the 4¢ *ad valorem* water storage tax. In its analyses, CAP considered using different amounts of the 4¢ tax monies to determine how much could be used without impacting the activities of the AWBA. These different amounts were based on use of the 4¢ tax identified in past resolutions adopted by the CAP Boards and amounts expected to be collected under future resolutions.

Ms. O'Connell provided some history on the 4¢ tax resolutions. She explained that since the AWBA's inception in 1996 and until 2003, the resolutions adopted by the CAP Board stated that 4¢ tax monies collected would be deposited into the Water Banking Fund, where the Bank would use those monies to purchase and store water primarily for firming CAP M&I subcontract supplies. Beginning in 2003, the CAP Board resolved to retain the 4¢ tax and to use the monies collected to defray the operation and maintenance costs associated with water storage by the Bank for M&I firming purposes and also for administration costs. This was done to insure monies collected would be available for water bank storage. The language remained the same through 2008. During this time, the balance of 4¢ tax monies remaining in the Water Banking Fund was expended. The monies in the Pinal and Pima County subaccounts were spent in 2004. By 2007, monies in the Maricopa County subaccount were also exhausted. In 2009, language in the resolution changed to say the monies would be used to defray O&M costs associated with underground storage, leaving off the specific reference to the Bank. In 2010, the language was again changed to simply state the monies would be used to defray O&M costs. In 2012, language was expanded to state monies could also be used for repayment of project capital costs. Even though CAP has changed the language in the resolutions, the CAP Board has remained committed to supporting water storage by the Bank. According to CAP staff, changes were made to the

resolution for flexibility purposes. In addition to modifying the resolution there were also concerns that Maricopa County funds were growing while the volume of excess water available to the AWBA was decreasing.

At the last AWBA meeting, staff was directed to meet with CAP staff to get more information on the assumptions used in CAP's analysis. Prior to that meeting at another CAP Board meeting, CAP staff outlined three different scenarios for replenishing the strategic reserves, each utilizing a portion of the 4¢ tax: \$26, \$38, and \$54 million. None of the alternatives recommended using monies collected prior to the 2010 resolution. Each scenario included different combinations of costs passed through to M&I subcontractors and agriculture. The third alternative, utilizing \$54 million, would also include an increase in CAP's 10¢ *ad valorem* tax. After discussing the different options, CAP staff was directed by its Board to take another look at all the alternatives and to come back with more options. On April 18th, CAP staff presented another option at the Finance, Audit and Power (FAP) committee meeting recommending taking \$45 million from the 4¢ tax. Both of these presentations were forwarded to AWBA members by email.

When AWBA staff met with CAP staff, CAP staff explained the assumptions used to determine how much storage they anticipate the AWBA will do over the next ten years and how much 4¢ tax would be needed. Based on the information available today with regard to money capacity and water, the AWBA conducted an independent analysis produced similar results. One difference, however, is that CAP staff included estimated interest earnings in their calculations, which resulted in additional funds remaining at the end of the ten-year period.

Ms. O'Connell introduced Gary Given, Senior Financial Analyst for CAP, to give a presentation on the latest alternative being considered by CAP. Mr. Given gave a brief overview of the assumptions used in his analysis of AWBA storage needed for M&I firming through 2024. These included using only 4¢ monies. He reserved the use of the withdrawal fees for other purposes. He increased AWBA's cost to buy CAP excess water higher than CAP's 2012 published water rate schedule due to higher Navajo energy costs and higher capital charges, and that reduced CAGRDR replenishment reserve Excess CAP water needs due to use of its supplies which are in excess of replenishment needs starting in 2015. He indicated that water available to CAP from 2013 and beyond represents more normal levels largely due to increased water use by Indian contracts.

Mr. Cliff Neal asked if the analysis assumed all normal years out to 2024 or if it assumed a shortage or surplus scenario. Mr. Given replied that he assumed all normal years because the schedules used are for rate setting purposes so no other scenarios were considered. Mr. Neal also asked why there was no recharge in 2022 and 2023 in Pima and Pinal Counties. Mr. Given responded saying the 4¢ tax is assumed to expire on January 1, 2017. He subsequently acknowledged that the AWBA would accrue credits using withdrawal fees in those years, but in CAP's analysis such credits would not be attributed to M&I firming. Mr. Neal asked how CAP escalated costs after 2018. Ted Cooke, responded saying there is no inflator, but rather developed estimates based on best available information.

Chairman Fabritz-Whitney asked how many credits the AWBA could accrue if the \$45 million is not used to replenish the strategic reserve. Mr. Given responded saying that question would be answered towards the end of the presentation. Mr. Given indicated that the CAP Board resolutions provide for CAP to use up to \$52 million for O&M and repayment. If CAP takes \$45 million of the \$52 million that will leave \$147 million in 2024 of which \$62 million is interest currently reserved for administration of the AWBA. According to Mr. Given, funds used by the AWBA between now and 2024 will allow the AWBA to store 500,000 acre-feet. Post 2024, at an imputed rate of \$294 per acre-foot, assuming the entire \$147 million, the AWBA could store approximately 500,000 additional acre-feet. CAP anticipates rates will be less than \$294 per acre-feet.

Ms. O'Connell indicated that the AWBA conducted an analysis showing that if 110,000 acre-feet per year of water became available to the AWBA each year for the next ten years, the remaining 4¢ tax monies would be depleted by 2023. Ms. O'Connell reiterated that in the AWBA's study, the interest monies reserved for administration were not used to store water. Mr. Neal asked what the volume shortfall is on meeting the Tucson AMA firming goal. Mr. Given responded saying 400,000 acre-feet but the shortfall will exist irrespective of whether or not \$45 million is taken out. Mr. Neal asked if that was also true in the event of a surplus. Mr. Given responded that a surplus would allow the AWBA to come closer to meeting the firming goal for the Tucson AMA as would using withdrawal fees to store water for M&I firming. Ms. O'Connell added that if withdrawal fees are also used, the AWBA would achieve 68% of the Tucson AMA firming goal in ten years. Mr. Neal asked what the firming volume is for the Indians. Ms. O'Connell responded saying 550,000 acre-feet. Tim Henley, AWBA, added that the 550,000 is derived from applying the same assumptions applied for the M&I firming, but the Indian firming is an obligation not a goal.

Maureen George commented that the analysis presented assumes the request for the \$45 million is a one-time taking. She asked what the likelihood is that CAP will be making a similar request in the future. Mr. Cooke responded saying he was 99% sure CAP would not be back again for this same purpose. CAWCD's overall strategy employed will allow CAP to cover the shortfall and maintain the balance in the reserves. He added, however, that CAP might have to come back for something unknown, but they have attempted to include everything they know in this one time request. He also indicated that the alternatives CAP has considered made sure requests stay within the 2010 and forward window of the resolutions. He pointed out there is not a lot of money left except for future year collections. He suggested the real question is what CAP would do with these future collections. He responded saying the future cannot be predicted.

Chairman Fabritz-Whitney asked what the actual impact would be to CAP if CAP cannot utilize the already collected 4¢ tax monies. Mr. Cooke anchored back to the "reserve balance slide" explaining the slide and its implications. He stated the CAP has a reserve policy that establishes a target of \$205 million. Last year, the Board began to see these financial issues. The Board acknowledged that the reserve target is just a target, but that the reserves needed to maintain a floor of \$180 million. Consequently, when the Board saw reserve levels dropping below the floor to potentially \$140 million, action needed to be taken. Mr. Cooke suggested that the question is what alternatives exist instead of using the 4¢ tax monies. One alternative is to reconcile the 2012/13

rates for reconcilable contracts (i.e. federal and M&I customers). Mr. Cooke identified two reasons why the reserved fund was depleted. He explained that half of the \$50 million deficit is due to reductions in Navajo Surplus Power sales that consequently reduce revenues to pay for capital charges. The other half of the deficit is the result of the CAP energy rate being set too low. Mr. Cooke explained that reconciling the rates cannot solve the problem as reconciliation only applies to federal and M&I customers and could only produce about \$15 million. The remainder would have to come from property taxes: either past property taxes reserves, 4¢ taxes or from future collections.

Chairman Fabritz-Whitney asked if CAP had to act immediately or could action be deferred and if so, has CAP considered extending the 4¢ ad valorem tax beyond 2016 and or has CAP considered levying a larger portion of its 10¢ ad valorem tax. Mr. Cooke replied saying that these discussions have not involved extending the 4¢ ad valorem tax beyond 2016, but it could. He also acknowledged the 10¢ tax could be increased. The problem, Mr. Cooke explained, is using future taxes will take a long time to fill the \$50 million hole. He then referred to the "reserve balance slide" pointing out that the black line represents the annual amount that is 10% below the target reserves which the Board believes would still be responsible. CAP considered two boundary conditions: stay above \$180 million and recover by 2018. Doing nothing, the purple line, drops the reserves to \$75 million. Without \$45 million from the 4¢ tax monies, but with the other alternatives, the reserve would drop to \$159 million. With the \$45 million, the reserve is expected to increase to \$212 million.

Mr. Neal pointed out that the Board was comfortable with a reserve of \$180 million at that time. Mr. Cooke talked about why CAP has reserves. In addition to using reserves for their stated purpose, reserves are also use to demonstrate that CAP is a responsible entity worthy of bonding.

Chairman Fabritz-Whitney indicated that the \$45 million appears to be coming out of Maricopa County. She asked if any legal issues have been raised to that point. Mr. Cooke responded saying the issue has come up. The restriction that the 4¢ tax be used only for the benefit of the county in which it was collected appears only to rest in AWBA statutes and not in CAP statutes. If the money never reaches the AWBA fund, this requirement is not applicable. Mr. Neal asked for clarification about whether the funds were AMA specific or county specific. Mr. Given indicated that some of the Pinal County taxes are included in the Phoenix AMA numbers because credits are distributed at the AMA level.

Ms. George commented that based on email correspondence from Ms. O'Connell, CAP customers are in favor of using a portion of the 4¢ tax monies to replenish CAP reserves. She asked if the interest on these funds could be used to meet the firming goals in Pima County. Ms. O'Connell responded that based on past discussion with AWBA attorneys, the interest has to be used for the same purpose as the monies collected. Mr. Henley supported Ms. O'Connell adding if the interest is sent to the AWBA, the benefit of the county rule applies. He pointed out that this is not a new issue.

Mr. Neal stated that he has concerns that Maricopa County funds were being used to solve a problem for everyone, but he is not sure there is a better solution. He continued

saying it goes back to Mr. Mawhinney's question from the last meeting: what is the AWBA's role? He was concerned the AWBA would need to go back to the CAP Board or perhaps change the law. Mr. Neal expressed concern that the AWBA does not have much control over the monies ostensibly collected for the AWBA's mission. Mr. Hartdegen commented that sometimes Maricopa County has to help out the whole and when it does, Maricopa County gets the majority of the benefit. He finished his comments saying we are all in this together and it is in everyone's best interest to get the reserves back up as quick as possible.

Mr. Mawhinney stated that because there are insufficient funds for meeting the firming goal in the Tucson AMA, he feels it is important that collections of the 4¢ tax monies be extended beyond 2016. Chairman Fabritz-Whitney indicated there are two issues: one issue is using already collected 4¢ tax monies to replenish the strategic reserves. The second issue is extending the tax beyond 2013. Mr. Neal laid out some potential direction for staff:

- Support the Preliminary Rate Schedule recommended by CAP's Finance, Audit & Power Committee on April 18;
- Support concept that CAP Strategic Reserves should not fall below 90% of the target previously established by the CAP Board to maintain CAP's financial health;
- The CAP Board has yet to take action on its tax rates for the coming year and for what the resulting revenues may be used. It is also possible the power market could bounce back quicker than currently projected. Depending on these conditions, it may not take a full \$45 million transfer today to get CAP healthy. Therefore, AWBA should support the use of existing money in the 4¢ account only to bring CAP's Strategic Reserves back to the "Black Line" (in Ted's chart) one year at a time (not to exceed a total of \$45 million over the next 3 to 4 years). If CAP needs additional money next year and in future years, and if it wants to use 4¢ tax revenues, the Board should make that clear when it adopts future resolutions for the 4¢ assessment.

Ms. George expressed a minor point of disagreement with Mr. Neal saying she would prefer CAP take the 4¢ tax money arguably set aside for AWBA only once and in the minimum amount needed to meet CAP's lowest threshold amount.

Chairman Fabritz-Whitney asked if the Commission wanted to hear from the public before finalizing its direction to staff. Chairman Fabritz-Whitney then opened the floor up to public comments.

Call to the Public

Paul Hendricks pointed out that when the Legislature takes money it's called a "sweep". He continued saying that since the SO2 credits are gone, and not likely to return, it would seem folks under contracts requiring reconciliation should do their part. A city does not give special consideration to a single entity, but a city can increase rates to a customer class. If the issue is there is too much money in the Maricopa County fund, the question is why have the rates not been lowered. Mr. Hendricks explained that he has two bank accounts: one for fun and one for essential business. It doesn't matter

where the money resides, if extra money exists, that money can be used for either purpose. Regarding the idea of having a comfort level with regard to the strategic reserves, he commented that in today's world we do not have the luxury anymore of operating at a comfortable level. He added that progress cannot be made moving money around just because someone is uncomfortable. Finally, Mr. Hendricks commented that any excess funds could potentially be used for Indian firming.

Finalize Direction to Staff

Chairman Fabritz-Whitney asked if the Commission was comfortable with Mr. Neal's proposed direction to staff. Ms. George commented that she supported Mr. Neal's proposal but wanted to also send a message to CAP not to come back in the future to request monies to resolve other issues. She did support the idea of using these monies to support Indian firming. Mr. Hartdegen also expressed support for using these funds for Indian firming. Chairman Fabritz-Whitney asked Ms. O'Connell if she had sufficient direction to proceed. Ms. O'Connell replied affirmatively. Chairman Fabritz-Whitney also asked that staff start having conversations about using the 4¢ tax monies for Indian firming.

Chairman Fabritz-Whitney announced the next AWBA meeting is scheduled for Wednesday, June 19, 2013. The meeting adjourned at 3:38 p.m.

III. Water Bank Staff Activities

NOTES: (No action required, agenda item for discussion only)

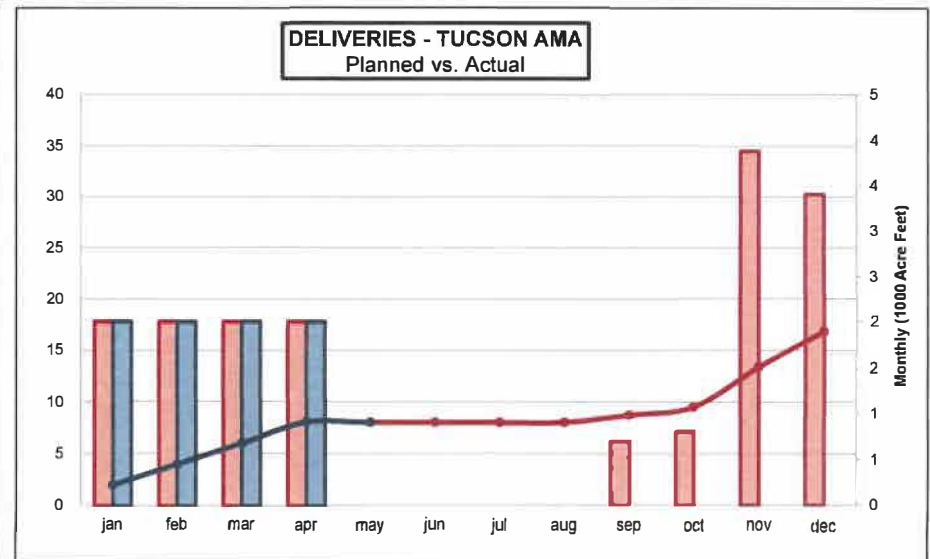
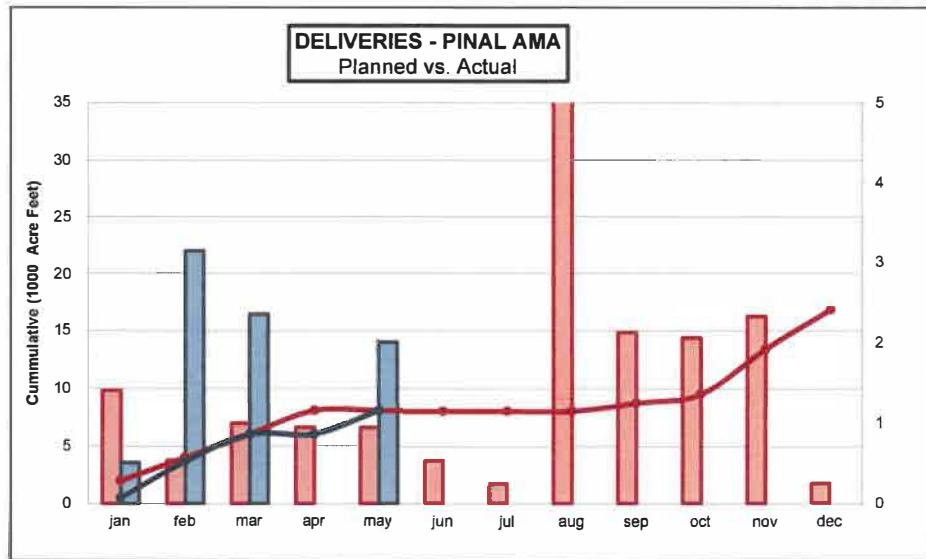
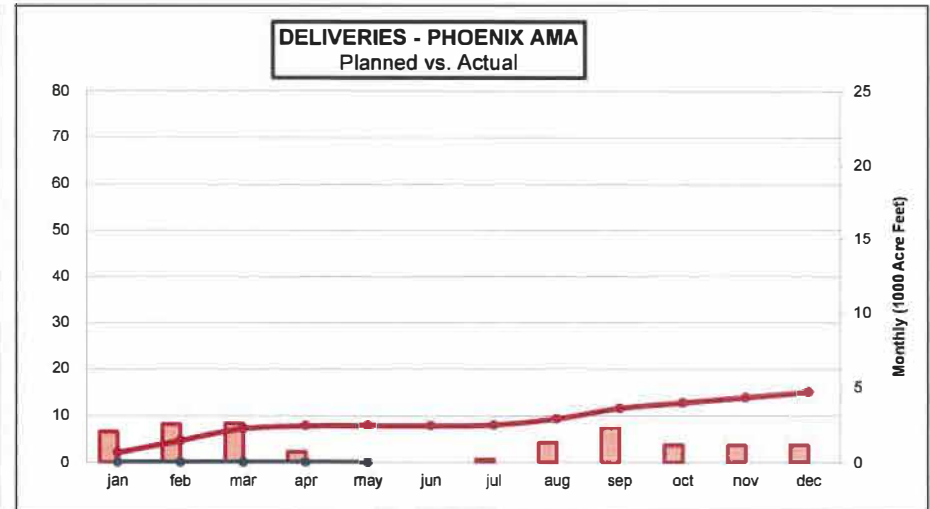
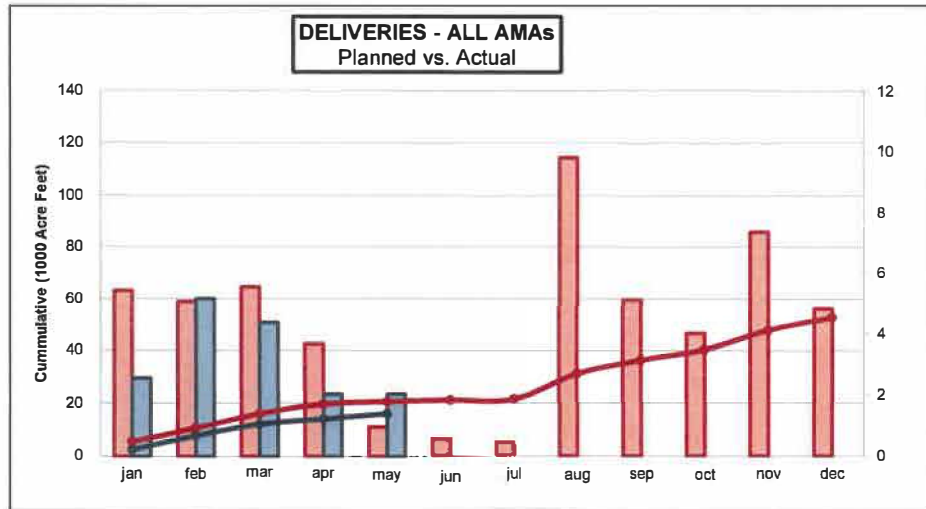
Call on **Virginia O'Connell** to update members on:

- Monthly deliveries
- Executed Third Amended and Restated Agreement for Interstate Water Banking
- Use of water storage tax to replenish CAWCD strategic reserves
- CAWCD 4¢ *ad valorem* tax levy resolution
- May 14, 2013 letter from V. O'Connell to P. Pickard re: CAWCD Water Storage Tax Resolution 2013-2014
- Joint planning activities between CAWCD, ADWR and AWBA regarding recovery of water stored by the AWBA

Call on **Tim Henley** to provide and update on Indian settlement negotiations.

ACTION: None.

2013 Plan of Operation - INTRASTATE



■ PLANNED (MONTHLY)
 ■ ACTUAL (MONTHLY)
 —●— PLANNED (CUM)
 —●— ACTUAL (CUM)

Actual deliveries updated <i>Plan of Operation</i>	18-Jun-13 <i>7-Dec-11</i>	jan	feb	mar	apr	may	jun	jul	aug	sep	oct	nov	dec	total
Phoenix AMA														
TONOPA DESERT	0	0	0	0	0	0	0	0	0	0	0	0	0	0
	2,000	2,000	2,030	0	0	0	0	0	0	0	0	0	0	6,030
NMIDD	0	0	0	0	0	0	0	0	0	0	0	0	0	0
	0	0	0	0	0	0	0	0	0	0	0	0	0	0
QCID	0	0	0	0	0	0	0	0	0	0	0	0	0	0
	0	0	0	0	0	0	175	1,343	2,285	1,142	1,143	1,142	1,142	7,230
SUPERSTITION MTNS	0	0	0	0	0	0	0	0	0	0	0	0	0	0
	0	500	500	702	0	0	0	0	0	0	0	0	0	1,702
Subtotal	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Total to date	0	0	0	0	0	0	0	0	0	0	0	0	0	0
<i>Projected total to date</i>	2,000	2,500	2,530	702	0	0	175	1,343	2,285	1,142	1,143	1,142	1,142	14,962
Pinal AMA														
CAIDD	0	0	0	0	0	0	0	0	0	0	0	0	0	0
	0	0	0	0	0	0	0	0	6,600	0	0	0	0	6,600
MSIDD	510	3,140	2,350	0	800	0	0	0	0	0	0	0	0	6,600
	0	0	0	0	0	0	0	0	1,650	1,650	1,650	1,650	0	6,600
HIDD	0	0	0	0	1,400	0	0	0	0	0	0	0	0	1,400
	408	536	989	935	935	536	247	218	472	400	670	254	254	6,600
Southside Bank	0	0	0	0	0	0	0	0	0	0	0	0	0	0
	1,000	0	0	0	0	0	0	0	0	0	0	0	0	1,000
Subtotal	510	3,140	2,350	0	2,000	0	0	0	0	0	0	0	0	8,000
Total to date	510	3,650	6,000	6,000	8,000	8,000	8,000	8,000	8,000	8,000	8,000	8,000	8,000	8,000
<i>Projected total to date</i>	1,408	536	989	935	935	536	247	8,468	2,122	2,050	2,320	254	254	20,800
Tucson AMA														
AVRA VALLEY	0	0	0	0	0	0	0	0	0	0	0	0	0	0
	0	0	0	0	0	0	0	0	0	0	183	700	700	883
CAVSARP	0	0	0	0	0	0	0	0	0	0	0	0	0	0
	0	0	0	0	0	0	0	0	0	0	0	0	0	0
SAVSARP	2,000	2,000	2,000	2,000	0	0	0	0	0	0	0	0	0	8,000
	2,000	2,000	2,000	2,000	0	0	0	0	0	0	0	2,000	1,901	11,901
LOWER SANTA CRUZ	0	0	0	0	0	0	0	0	0	0	0	0	0	0
	0	0	0	0	0	0	0	0	0	0	0	0	0	0
PIMA MINE ROAD	0	0	0	0	0	0	0	0	0	0	0	0	0	0
	0	0	0	0	0	0	0	0	0	700	800	1,700	800	4,000
CMID	0	0	0	0	0	0	0	0	0	0	0	0	0	0
	0	0	0	0	0	0	0	0	0	0	0	0	0	0
BKW FARMS	0	0	0	0	0	0	0	0	0	0	0	0	0	0
	0	0	0	0	0	0	0	0	0	0	0	0	0	0
KAI FARMS - Red Rock	0	0	0	0	0	0	0	0	0	0	0	0	0	0
	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Subtotal	2,000	2,000	2,000	2,000	0	0	0	0	0	0	0	0	0	8,000
Total to date	2,000	4,000	6,000	8,000	8,000	8,000	8,000	8,000	8,000	8,000	8,000	8,000	8,000	8,000
<i>Projected total to date</i>	2,000	2,000	2,000	2,000	0	0	0	0	700	800	3,883	3,401	3,401	16,784
TOTAL	2,510	5,140	4,350	2,000	2,000	0	0	0	0	0	0	0	0	16,000
Total to date	2,510	7,650	12,000	14,000	16,000	16,000	16,000	16,000	16,000	16,000	16,000	16,000	16,000	16,000
<i>Projected total to date</i>	5,408	5,036	5,519	3,637	935	536	422	9,811	5,107	3,992	7,346	4,797	4,797	52,546

THIRD AMENDED AND RESTATED AGREEMENT FOR INTERSTATE WATER BANKING

among

**The Arizona Water Banking Authority
and
The Southern Nevada Water Authority and The
Colorado River Commission of Nevada**

This Third Amended and Restated Interstate Water Banking Agreement (Agreement) is made as of this 20th day of May, 2013 (Effective Date), among the Arizona Water Banking Authority (AWBA), the Southern Nevada Water Authority (SNWA), and the Colorado River Commission of Nevada (CRCN), collectively referred to as "Parties" and individually as "Party." This Agreement amends, restates in its entirety, and supersedes that certain Agreement for Interstate Water Banking dated July 3, 2001, together with all prior amendments and modifications thereto.

Recitals

A. The Arizona Water Banking Authority is an agency of the State of Arizona expressly authorized by A.R.S. § 45-2401 *et seq.* to engage in the interstate banking of Colorado River water on behalf of the State of Arizona. The statutory conditions of A.R.S. §§ 45-2427 and 45-2471 have been satisfied, this Agreement conforms to all of the requirements of such sections and all other applicable provisions of Arizona law, and AWBA is empowered to enter into this Agreement.

B. The Southern Nevada Water Authority is a Nevada joint powers agency and political subdivision of the State of Nevada, created by agreement dated July 25, 1991, as amended November 17, 1994 and January 1, 1996, pursuant to N.R.S. §§ 277.074 and 277.120. SNWA is authorized by N.R.S. § 538.186 to enter into this Agreement and, pursuant to its contract issued under section 5 of the Boulder Canyon Project Act of 1928, SNWA has the right to divert Intentionally Created Unused Apportionment released by the Secretary for use within the State of Nevada pursuant to Art. II(B)(6) of the Consolidated Decree.

C. The Colorado River Commission of the State of Nevada (CRCN) is an agency of the State of Nevada, authorized generally by N.R.S. §§ 538.041 and 538.251. More specifically, CRCN is authorized by N.R.S. §§ 538.161 and 538.186 to enter into this Agreement. The CRCN, in furtherance of the State of Nevada's responsibility to promote the health and welfare of its people in Colorado River matters, makes this Agreement to facilitate the banking of Colorado River water, the crediting of Long-term Storage Credits, and the development of ICUA for SNWA.

D. On July 3, 2001, the Parties entered into the original Agreement for Interstate Water Banking (Original Agreement). In the Original Agreement, and subject to its limitations, AWBA committed to use its best efforts to create for SNWA Long-term Storage Credits in an initial amount of 1,200,000 acre-feet, to be held in an SNWA Interstate Account established with the Arizona Department of Water Resources and, on request of SNWA, to recover for SNWA such credits and cause the development of Intentionally Created Unused Apportionment of Colorado River water (ICUA). SNWA agreed to reimburse AWBA for its costs on an annual basis.

E. On December 18, 2002, the United States, acting through the Secretary of the Interior, AWBA, SNWA, and CRCN entered into a Storage and Interstate Release Agreement (SIRA) pursuant to the Secretary's regulations at 43 C.F.R. Part 414, Offstream Storage of Colorado River Water and Development of and Release of Intentionally Created Unused Apportionment in the Lower Division States. In the SIRA, the Secretary committed to release ICUA developed by AWBA in accordance with the request of SNWA, the terms of the SIRA, and certain specified determinations of the Secretary.

F. The Original Agreement was amended on January 1, 2005 (Amended Agreement) and again on April 1, 2009 (Second Amended Agreement) whereby the Parties amended and restated in its entirety the Original Agreement to provide (1) a specific commitment by AWBA to have credited to the SNWA Interstate Account Long-Term Storage Credits in an aggregate amount, including those theretofore credited, of 1,250,000 acre-feet, (2) a commitment by AWBA, on request of SNWA, to recover such credits and to develop ICUA for SNWA's benefit up to a specified annual maximum, and (3) specified payments to be made by SNWA in consideration of AWBA's commitments respecting the crediting of such Long-Term Storage Credits.

G. Prior to the effective date of the Amended Agreement, AWBA established a long-term storage sub-account entitled "SNWA Interstate Account" with the Arizona Department of Water Resources (ADWR). As of the effective date of the Amended Agreement, the following Long-term Storage Credits had been credited to the SNWA Interstate Account: (1) 50,000 acre-feet of Long-term Storage Credits held by CAWCD for the benefit of SNWA as of the effective date of the Original Agreement; and (2) all of the Long-term Storage Credits existing by virtue of Colorado River water stored, or other Long-term Storage Credits transferred to such account, pursuant to the Original Agreement.

H. The Second Amended Agreement was further modified by "letter agreements" dated April 2, 2009, December 17, 2009, June 15, 2010, and December 8, 2010. The letter agreements addressed operational adjustments to the Second Amended Agreement and modification to the payment schedule.

I. AWBA has accrued 600,651 acre feet of the Long-term Storage Credits on behalf of the SNWA in the SNWA Interstate Account pursuant to the previous agreements, including 50,000 acre feet of Long-term Storage Credits described in Recital G created for the benefit of the SNWA under a separate agreement between SNWA and CAWCD and transferred to the AWBA under the Original Agreement.

J. SNWA has provided \$122,738,945 to AWBA for the delivery and storage of Colorado River water in Arizona on SNWA's behalf. This amount was exclusive of any funding provided to CAWCD for the Long-term Storage Credits described in Recital G.

K. On June 9, 2010, the Parties along with CAWCD entered into a Recovery Agreement addressing some of the details of interstate and intrastate recovery of Long-term Storage Credits. As described in the Recovery Agreement, there is no charge for recovery of the 50,000 acre-feet of Long-Term Storage Credits described in Recital G as SNWA has already pre-paid those costs.

L. SNWA, CRCN, and AWBA desire to enter into this Agreement to amend, restate, and supersede the Original Agreement and all amendments and modifications thereto such that this Agreement and the Recovery Agreement will govern the future rights and obligations of the Parties with respect to SNWA's existing Long-term Storage Credits in the SNWA Interstate Account, banking of additional Colorado River water in Arizona on behalf of SNWA, and related matters as set forth herein.

ARTICLE 1

DEFINITIONS, FUNDAMENTAL PRINCIPLES AND TERMS

1.1 Definitions. For purposes of this Agreement, terms that are defined in Article I of the Consolidated Decree, terms that are defined in Arizona Revised Statutes (A.R.S.) Title 45, Chapter 3.1, and terms that are defined in 43 C.F.R. Part 414 shall have the meaning there stated. The following terms shall have the meaning defined here, unless the context manifestly requires otherwise. Defined terms are identified by initial letter capitalization.

1.1.1 "ADWR" shall mean Arizona Department of Water Resources.

1.1.2 "Agreement" shall mean this Third Amended and Restated Agreement for Interstate Water Banking.

1.1.3 "AWBA" shall mean the Arizona Water Banking Authority.

1.1.4 "AWBA Plan of Operation" shall mean the plan by which AWBA shall operate during the Year as defined in A.R.S. § 45-2456.

1.1.5 "Bureau of Reclamation" shall mean the United States Bureau of Reclamation, Lower Colorado Region.

1.1.6 "CAP" shall mean the Central Arizona Project, as authorized by the Colorado River Basin Project Act, 43 U.S.C. § 1501 *et seq.*, and as operated under that certain Master Repayment Contract dated December 1, 1988, Contract No. 14-06-W-245 between CAWCD and the United States Bureau of Reclamation, as amended.

- 1.1.7 "CAWCD" shall mean the Central Arizona Water Conservation District.
- 1.1.8 "CRCN" shall mean the Colorado River Commission of Nevada.
- 1.1.9 "Consolidated Decree" shall mean the Consolidated Decree entered by the United States Supreme Court in *Arizona v. California*, 126 S.Ct. 1543, 547 U.S. 150 (2006).
- 1.1.10 "Excess CAP Water" shall mean CAP water that is available for distribution by CAWCD in accordance with §8.7(e) of the Master Repayment Contract or §5(d)(2) of the Stipulation Regarding a Stay of Litigation, Resolution of Issues During the Stay and Ultimate Judgment upon Satisfaction of Conditions, filed with the United States District Court on May 3, 2000, in *Central Arizona Water Conservation District v. United States, et al.*, No. CIV 95-625-TUC-WDB (EHC) and CIV 95-1720-PHX-EHC (consolidated), and in accordance with policies established by the CAWCD Board.
- 1.1.11 "ICUA" shall mean Intentionally Created Unused Apportionment as that term is defined in 43 C.F.R. § 414.2.
- 1.1.12 "Interstate Recovery Schedule" shall have the meaning defined in the Agreement for Development of Intentionally Created Unused Apportionment.
- 1.1.13 "Long-term Storage Credit" shall mean Long-term Storage Credit as defined in A.R.S. § 45-802.01(11).
- 1.1.14 "Master Repayment Contract" shall mean that Contract No. 14-06-W-245 dated December 1, 1988, between CAWCD and the United States Bureau of Reclamation, as amended.
- 1.1.15 "Recovery Agreement" shall mean that agreement entitled "Recovery Agreement Among Arizona Water Banking Authority, Central Arizona Water Conservation District, Southern Nevada Water Authority and Colorado River Commission of Nevada," dated June 9, 2010.
- 1.1.16 "Recovery Facilities" shall mean constructed facilities capable of recovering both intrastate and interstate Long-term Storage Credits.
- 1.1.17 "Secretary" shall mean the Secretary of the Interior for the United States, Department of the Interior.
- 1.1.18 "SNWA" shall mean the Southern Nevada Water Authority.
- 1.1.19 "SNWA Interstate Account" shall mean the Long-term Storage Credit Sub-account established by AWBA with ADWR pursuant to Subarticle 2.2.4 of the Original Agreement.

- 1.1.20 "Storage Facility" or "Storage Facilities" shall mean an Underground Storage Facility or a Groundwater Savings Facility as those terms are defined in A.R.S. § 45-802.01.
- 1.1.21 "Year" shall mean a calendar year.
- 1.2 Fundamental Principles of this Agreement
- 1.2.1 This Agreement is among AWBA and SNWA and CRCN. It is intended to create a program of interstate banking of Colorado River water. AWBA will not engage in interstate banking to the detriment of any water user in Arizona in fulfilling its obligations under this Agreement.
- 1.2.2 Under the terms of this Agreement, AWBA shall utilize the existing Long-term Storage Credits accrued in the SNWA Interstate Account, as well as any new Long-term Storage Credits created pursuant to this Agreement, at a later date to develop ICUA for the benefit of SNWA. The Secretary is required to release this ICUA for consumptive use within the State of Nevada pursuant to the Storage and Interstate Release Agreement entered into by the Secretary under the regulations adopted by the Secretary in 43 CFR Part 414. This Agreement is one part of a four part contractual relationship, which also includes the Storage and Interstate Release Agreement (SIRA), an Agreement for the Development of Intentionally Created Unused Apportionment and a Recovery Agreement. In furtherance of its performance under this Agreement, the AWBA has also entered into an Intergovernmental Agreement among AWBA, CAWCD, and ADWR, as amended, and a series of water storage agreements between AWBA and Storage Facility operators in the State of Arizona.
- 1.2.3 This Agreement and the Recovery Agreement shall govern the relative rights and responsibilities of AWBA, SNWA and CRCN for the delivery, storage and recovery of Colorado River water in Arizona and for the development of ICUA. No ownership rights in specific storage facilities shall accrue to either SNWA or CRCN by this Agreement. Neither SNWA nor CRCN shall have any rights in this interstate banking arrangement except as provided in this Agreement.
- 1.2.4 AWBA shall recognize priorities or preferences for the storage and recovery of water in Arizona established by the Agreement Relating to Implementation of Interim Colorado River Surplus Guidelines between SNWA and The Metropolitan Water District of Southern California, dated May 16, 2002.
- 1.2.5 This Agreement is intended to operate for the mutual benefit of the citizens of the State of Arizona and the citizens of the State of Nevada. It is entered into with the understanding that it is an act of comity, and with the understanding that interstate banking of Colorado River water among the States of the Lower

Division must be undertaken in accordance with express authority granted under each state's law.

1.3 Term of Agreement

This Agreement becomes effective when executed by all Parties. This Agreement shall terminate when all of the Long-term Storage Credits accrued in the SNWA Interstate Account as of the Effective Date or developed thereafter have subsequently been recovered, unless this Agreement is extended by written agreement of all Parties. Recovery of the Long-term Storage Credits accrued in the SNWA Interstate Account as of the Effective Date shall be complete by December 31, 2063. Recovery of any Long-term Storage Credits created after the Effective Date shall be complete no later than 50 years after the date of storage. Unless SNWA and AWBA mutually agree otherwise, Long-term Storage Credits accrued in the SNWA Interstate Account as of the Effective Date shall be recovered before Long-term Storage Credits created after the Effective Date. Unless SNWA and AWBA mutually agree otherwise, Long-term Storage Credits accrued in the SNWA Interstate Account after the Effective Date will be recovered on a first in, first out basis so that the oldest credits will be recovered first.

ARTICLE 2

DELIVERY AND STORAGE

2.1 Current Balance in SNWA Interstate Account

As of the Effective Date, AWBA has created 600,651 acre feet of Long-term Storage Credits in the SNWA Interstate Account. Upon the request by SNWA for development of ICUA as described in Article 3, the AWBA shall use Long-term Storage Credits available in the SNWA Interstate Account to fulfill that request.

2.2 Payments Previously Made by SNWA

In consideration of the Long-term Storage Credits created by AWBA prior to the Effective Date, SNWA made payments to AWBA aggregating to the sum of \$122,738,945. These payments are exclusive of any payments SNWA made to CAWCD for the 50,000 acre-feet of Long-term Storage Credits described in Recital G. The Parties acknowledge that the payments described above made by SNWA to AWBA for the delivery and storage of Colorado River water covered at least all costs specified in A.R.S. §§ 45-2471(C) and are not refundable.

2.3 Request for Additional Water Storage by SNWA

- 2.3.1 On or before September 1, AWBA, SNWA, and CRCN shall confer concerning the amount of water anticipated to be available for storage, including any Nevada apportionment, and the proposed location, manner, and

cost by which the interstate banking could be accomplished in the following Year.

- 2.3.2 Annually, AWBA develops a draft AWBA Plan of Operation. The draft AWBA Plan of Operation may include an interstate component.
- 2.3.3 On or before November 1, AWBA shall determine and advise SNWA and CRCN in writing as to the quantity of water and storage capacity available for interstate banking under the terms of this Agreement for the following Year. AWBA shall also provide an estimate of the costs calculated pursuant to Subarticle 2.5 associated with the delivery and storage of water available for interstate banking. AWBA shall also provide the data upon which the determinations and estimates in this Subarticle were based.
- 2.3.4 Within 30 days of the notice provided in Subarticle 2.3.3, SNWA shall specify in writing to AWBA its decision to accept all or any portion of the water and storage capacity available at the estimated cost.
- 2.3.5 After consultation with SNWA, the final decision on the quantity of water to be stored and the location of the storage under the terms of this Agreement shall be at the discretion of AWBA. However, except as otherwise provided in Subarticle 2.3.8.1, the maximum quantity of water to be stored in any Year shall not be greater than the amount specified by SNWA pursuant to Subarticle 2.3.4.
- 2.3.6 The quantity of water to be stored in accordance with the terms of this Agreement shall be identified in the final AWBA Plan of Operation by January 1 of each Year. Unless the final AWBA Plan of Operation is modified, this quantity of water shall be stored. AWBA shall provide SNWA and CRCN with a copy of the final AWBA Plan of Operations and any amendments thereto.
- 2.3.7 At any time after approval of the AWBA Plan of Operation, SNWA may request a change in the quantity of SNWA storage for the current Year. Such request for change shall be in writing to AWBA and, if the request results in a decrease in storage, it shall not be greater than the difference between the amount of water already stored in that Year for the benefit of SNWA and the amount of water scheduled in that Year to be stored for the benefit of SNWA. AWBA may, at its discretion and after discussion at an open public meeting, modify the AWBA Plan of Operation to reflect such a change.
- 2.3.8 AWBA may modify the AWBA Plan of Operation for reasons other than a request from SNWA.
 - 2.3.8.1 If the modification results in an increase in the amount of Excess CAP Water available for storage for interstate banking, AWBA

shall notify SNWA and CRCN in writing of the estimated cost for delivery and storage of the increase. SNWA shall have 30 days after receipt of such notice to specify in writing to AWBA its decision to decline any or all of the increase.

2.3.8.2 If the modification results in a decrease in Excess CAP Water available for storage for interstate banking, AWBA will notify SNWA and CRCN in writing of such a modification, the reasons for the decrease in storage, the data upon which such determination was based, and the revised amount of water that AWBA will store for SNWA during the Year.

2.3.8.3 If SNWA directs Nevada unused apportionment to AWBA for storage pursuant to this Agreement, AWBA agrees that no decrease in the amount of storage for SNWA will be made after October 1 of each Year.

2.3.8.4 AWBA agrees to notify SNWA if costs are expected to increase by more than 20% due to the modification of the AWBA Plan of Operation or any other reason.

2.3.9 The schedule dates and periods contained in this Subarticle 2.3 can be changed upon written agreement of AWBA and SNWA.

2.4 Delivery and Storage of Additional Water by AWBA for SNWA. Delivery and storage of additional water under the terms of this Agreement shall be subject to the following:

2.4.1 The delivery of additional water to storage shall be pursuant to the agreement between CAWCD and the AWBA providing for the Delivery of Excess CAP Water, whereby AWBA is entitled to purchase Excess CAP Water from CAWCD for interstate banking purposes.

2.4.2 AWBA has obtained and shall continue to maintain all necessary water storage permits from ADWR to allow storage under the terms of this Agreement.

2.4.3 The storage of water shall be pursuant to AWBA's contracts with various Storage Facility operators whereby AWBA is entitled to store water at those various Storage Facilities.

2.4.4 AWBA shall monitor the accrual and maintenance of Long-term Storage Credits in the SNWA Interstate Account from Year to Year. AWBA shall exercise due diligence in ensuring that all Long-term Storage Credits developed in accordance with the terms of this Agreement have accrued and are properly accounted for in such account.

2.4.5 AWBA agrees that it shall timely file with ADWR an annual report for all water delivered and stored in accordance with the terms of this Agreement by March 31 of the Year following the delivery and storage. AWBA, SNWA and CRCN shall cooperate in the preparation of such report, and shall agree upon the accuracy of the data to be filed. ADWR determines the quantity of Long-term Storage Credits that accrue in the SNWA Interstate Account in any Year and makes a report available to AWBA detailing the credits available in AWBA's Long-term Storage Account. Upon receipt of the report from ADWR, AWBA shall make that report available to SNWA and CRCN. The report may include adjustments or corrections made by ADWR to the Long-term Storage Credits in the SNWA Interstate Account created after the Effective Date of this Agreement.

2.5 Charges for Additional Delivery and Storage

2.5.1 SNWA agrees that all costs of the additional delivery and storage of water as described in Subarticle 2.4 (including the costs referred to in A.R.S. § 45-2471(C)) shall be borne by SNWA. Such costs shall be calculated and charged to SNWA in accordance with this Subarticle 2.5, and billed to and paid by SNWA as provided in Subarticle 2.6. The Parties acknowledge that, for purposes of A.R.S. § 45-2471(C)(1), AWBA's cost of acquiring Colorado River water is the cost charged by the United States to CAWCD under CAWCD's federal water delivery contract for delivering such water.

2.5.2 The charges to SNWA for the cost of water delivered under this Agreement shall consist of the following pricing components computed on a per acre-foot basis:

- 2.5.2.1 The fixed operation, maintenance and replacement (OM&R) rate for water deliveries, set annually by the CAWCD Board for CAP (excluding any costs for non-CAP project water);
- 2.5.2.2 The M&I capital charge, set annually for CAP M&I subcontractors by the CAWCD Board;
- 2.5.2.3 A pumping energy rate established by the CAWCD Board for interstate banking. SNWA or CRCN may provide energy sufficient to fully or partially meet the pumping requirements for the delivery of water under the terms of this Agreement, if mutually agreeable among SNWA, CRCN, AWBA and CAWCD;
- 2.5.2.4 A payment *in lieu* of property taxes, calculated as described in A.R.S. § 48-3715; and
- 2.5.2.5 Such additional costs as may be reasonably incurred by AWBA with approval by SNWA.

2.5.3 The charges to SNWA for the cost of water storage under this Agreement shall consist of the following pricing components computed on a per acre foot of delivery basis:

2.5.3.1 Underground Storage Facility charges as paid by AWBA based on contractual agreements with those facility operators;

2.5.3.2 A capital charge for storage at Underground Storage Facilities constructed with State Demonstration Project funds as determined by CAWCD as owner/operator of the facilities;

2.5.3.3 If storage under the terms of this Agreement is accomplished at Groundwater Savings Facilities, SNWA shall pay a charge for storage as determined by AWBA in that Year; and

2.5.3.4 Such additional costs as may be reasonably incurred by AWBA with approval by SNWA.

2.6 Billing of and Payment for Additional Delivery and Storage

2.6.1 In any Year that additional water is to be delivered and stored by the AWBA for the benefit of SNWA, the AWBA will on or before January 1 of that Year, provide SNWA a statement detailing the total annual charge for the water to be delivered and stored in that Year for the benefit of the SNWA. The charges are described in Subarticle 2.5.

2.6.2 AWBA shall provide SNWA monthly invoices equaling one-twelfth of the total annual charge on or before the first of each month. SNWA shall pay the total amount of the invoice on or before the 10th of each month. If such day is not a business day, the payment shall be made on the next succeeding business day. Following receipt of the SNWA payment, AWBA shall remit the appropriate payment to CAWCD in accordance with AWBA's Master Water Storage Agreement with CAWCD.

2.6.3 The total annual charge for water delivery may be subject to a mid-year correction if the charges described in Subarticle 2.5.2 are changed by the CAWCD Board. In the event of a correction, AWBA shall re-compute the remaining equal monthly payments and invoice SNWA the corrected amount in the first monthly invoice following the correction.

2.6.4 No later than March 15 of the Year following a Year in which water was delivered and stored under the terms of this Agreement, AWBA shall provide SNWA a Year end account reconciliation. The payment account of SNWA shall be adjusted first to reflect the amount of water actually delivered by AWBA, and second to reflect any change in the OM&R and pumping energy

rates applicable to the water delivered. If additional funds are owed to AWBA, SNWA shall remit those funds within 10 business days of the date the notice is provided by AWBA. If funds are due to SNWA, they shall be remitted to SNWA within 10 business days, including interest accrued on those funds, unless SNWA requests that the funds including interest be used to offset the water delivery charge for a future Year in which additional storage and delivery occurs. If additional delivery and storage has not occurred within three years, SNWA may request that the AWBA remit all remaining funds.

2.6.5 The schedule dates and periods contained in this Subarticle 2.6 can be changed upon written agreement of AWBA and SNWA.

2.7 Administrative Service Cost for Stored Water

2.7.1 In any Year when AWBA does not deliver and store water for SNWA pursuant to this Agreement, SNWA shall be charged \$20,000 per year for AWBA's continuing administrative services in accordance with the terms of this Agreement.

2.7.2 Charges for administrative services as described in Subarticle 2.7.1 shall be paid on a quarterly basis. Unless otherwise agreed in advance, each quarterly payment shall be an equal one-fourth of the administrative charge for the Year. AWBA shall provide an invoice for one quarter of the annual administration charge to SNWA on or before the 15th day of December, March, June, and September for the quarter immediately following. If such day is not a business day, the invoice shall be made on the next succeeding business day.

2.7.2.1 The first payment for administrative costs due under this Agreement will be invoiced on June 15, 2013.

2.7.3 In any Year when AWBA delivers and stores water for SNWA pursuant to this Agreement, SNWA shall pay AWBA 15% of AWBA's actual administrative costs. AWBA's actual administrative costs are computed as a lump sum for the Year in which the storage occurred and includes salaries, employee-related expenses and indirect costs.

2.7.4 Charges for administrative services as described in Subarticle 2.7.3 shall be paid in arrears on an annual basis. AWBA shall provide an invoice for the annual administration charge to SNWA on or before the 15th day of January for the actual administrative costs incurred in the previous Year. Such invoice shall apply a credit for any payments made pursuant to Subarticle 2.7.1. If such day is not a business day, the invoice shall be made on the next succeeding business day.

- 2.7.5 SNWA shall pay the administrative service charges on or before the first day of the month following the notice of the charges. If such day is not a business day, the payment shall be made on the next succeeding business day.
- 2.7.6 The administrative service cost is not refundable.

ARTICLE 3

DEVELOPMENT OF INTENTIONALLY CREATED UNUSED APPORTIONMENT

- 3.1 Extent of Annual Development of ICUA for SNWA
 - 3.1.1 SNWA shall have the right to require the recovery of Long-term Storage Credits in the SNWA Interstate Account and the development of ICUA in any Year, as follows:
 - 3.1.1.1 The initial year request for ICUA shall not exceed 20,000 acre-feet, the second year request for ICUA shall not exceed 30,000 acre-feet and any request for ICUA thereafter shall not exceed 40,000 acre-feet.
 - 3.1.2 During any Year as to which the Secretary has determined under Article II(B)(3) of the Consolidated Decree that a shortage condition exists, SNWA may require the development of ICUA (1) in such amount that, when considered together with the amount of basic apportionment available for use in Nevada, will allow 300,000 acre-feet to be consumptively used in Nevada, plus (2) the amount specified for such Year in Subarticle 3.1.1. SNWA may require the development of ICUA under this Subarticle only if after consultation with SNWA and CRCN, the AWBA has determined that sufficient recovery facilities are in place for that Year to meet the needs of CAP M&I subcontractors and any post 1968 domestic use Colorado River contractor in Arizona and SNWA's request. If it is determined that sufficient recovery facilities are not available, SNWA may require the development of ICUA only to the extent that SNWA has contributed to new facilities in Subarticle 3.4.2.1 or additional facilities in Subarticle 3.5.1 plus any available existing recovery capacity not utilized by the CAP M&I subcontractors and post 1968 domestic use Colorado River contractors.
 - 3.1.2.1 If a shortage determination by the Secretary under Article II(B)(3) of the Consolidated Decree causes a reduction in the Colorado River water available for use by non-Indian municipal and industrial (M&I) CAP subcontractors in any Year under their subcontracts or any other post 1968 domestic use Colorado River

contractor in any Year under their contract, SNWA's right to require the recovery of Long-term Storage Credits and the development of ICUA shall be reduced proportionately to the reduction in M&I water supply sustained by CAP subcontractors and any other post 1968 domestic use contractor.

3.2 SNWA Notices for Development of ICUA

- 3.2.1 By September 1, 2015 and each Year after that, SNWA shall provide AWBA and CAWCD a plan describing any potential ICUA requests for the following ten year period. SNWA and CRCN shall confer with AWBA and CAWCD when developing such a plan. The plan is for information and planning purposes only and is not binding.
- 3.2.2 For any Year in which SNWA will require the development of ICUA by AWBA and the release of ICUA by the Secretary, SNWA shall confer with the AWBA prior to June 1 of the preceding Year and provide notice of the amount of such ICUA to AWBA by June 1 of the preceding Year.
- 3.2.3 Between June 1 and September 15 of the Year in which a notice has been given under Subarticle 3.2.2, AWBA staff shall meet and confer with SNWA concerning the proposed location, manner and estimated cost of the development of the specified ICUA.
- 3.2.4 On or before September 15 of the Year in which a notice for the development of ICUA has been given to AWBA under Subarticle 3.2.2, or as otherwise required by the Secretary, SNWA shall make a request of the Secretary for the release of such ICUA during the following Year and shall provide a copy of such notice to AWBA.

3.3 Development of ICUA

- 3.3.1 Upon receipt of a notice under Subarticle 3.2.2 for the development of ICUA, AWBA shall meet and confer with CAWCD to develop an Interstate Recovery Schedule under the terms of the Agreement for the Development of Intentionally Created Unused Apportionment. The Interstate Recovery Schedule shall utilize the recovery of Long-term Storage Credits to develop the ICUA through recovery methods identified in the corresponding Storage and Interstate Release Agreement. These methods include recovery and exchange of Long-term Storage Credits for Colorado River water and/or credit exchange of Long-term Storage Credits for Colorado River water that would have otherwise been delivered for underground storage in that Year.

- 3.3.1.1 AWBA shall meet and confer with SNWA concerning the location, manner and cost of recovery when developing the Interstate Recovery Schedule.
- 3.3.1.2 AWBA agrees that the development of the Interstate Recovery Schedule shall take into account the location, manner and cost of recovering all water stored by AWBA in the State of Arizona. AWBA agrees that the selection of recovery facilities included in the Interstate Recovery Schedule shall not be made in a manner that unreasonably allocates the higher recovery cost to the recovery of water for the development of ICUA under the terms of this Agreement.
- 3.3.1.3 Factors to be considered when preparing the Interstate Recovery Schedule shall include but are not limited to:
 - 3.3.1.3.1 Arizona water management goals,
 - 3.3.1.3.2 CAP operational requirements,
 - 3.3.1.3.3 Water quality requirements,
 - 3.3.1.3.4 Opportunities for shared or joint facilities, and
 - 3.3.1.3.5 Opportunities to reduce recovery costs that will not burden Arizona water users.
- 3.3.2 Upon receipt of a copy of SNWA's request under Subarticle 3.2.4 to the Secretary for the release of ICUA during the following Year, AWBA shall prepare the following certifications, in accordance with the Agreement for the Development of Intentionally Created Unused Apportionment: (1) an Upcoming Year Delivery Certification; (2) an Interstate Recovery Schedule Certification; and, (3) a Development of ICUA Certification. These three certifications shall be prepared and delivered to the Bureau of Reclamation no later than December 1 of the Year in which a notice for the development of ICUA was given to AWBA under Subarticle 3.2.2. AWBA shall identify the amount of ICUA specified to be developed in SNWA's notice under Subarticle 3.2.2 in the AWBA Plan of Operation for the following Year, and in such Year shall recover Long-term Storage Credits and develop ICUA in such amount, subject to the Secretary's determination and release of ICUA under Subarticles 5.4 and 5.5 of the SIRA. Recovery shall not commence until verification by the Secretary that ICUA will be released to SNWA under the terms of the Storage and Interstate Release Agreement.
- 3.3.3 The choice of facilities utilized to recover the Long-term Storage Credits used to develop the ICUA during any year shall be at the discretion of AWBA.

- 3.3.4 After the Secretary's notice of determination pursuant to Subarticle 5.4 of the SIRA respecting the availability and release of ICUA, AWBA shall recover Long-term Storage Credits and cause ICUA to be developed in the amount specified in the Secretary's notice. SNWA shall be responsible for all costs of developing the specified ICUA as provided in this Agreement.
- 3.3.5 Upon written request by SNWA to cease the development of ICUA, AWBA shall cease the development of ICUA by the amount of the request or by the amount of verified ICUA not yet developed, whichever is less. AWBA shall certify to the Secretary the amount of ICUA previously requested that will not be developed and shall request that the Secretary act in accordance with that certification and the terms of the Storage and Interstate Release Agreement.
- 3.3.6 AWBA shall notify ADWR of the actual amount of credits recovered in accordance with the terms of this Agreement and shall request that ADWR debit the SNWA Interstate Account by the amount of credits recovered when AWBA submits its annual report to ADWR. AWBA and SNWA shall cooperate in the preparation of such report, and shall agree upon the accuracy of the data to be filed.

3.4 Charges for Developing ICUA

- 3.4.1 SNWA agrees that, except as provided in Subarticle 3.4.3, all costs of the development of ICUA as described in Subarticle 3.3 shall be borne by SNWA. Such costs shall be calculated and charged to SNWA in accordance with this Subarticle 3.4, and billed to and paid by SNWA as provided in Subarticle 3.5.
- 3.4.2 The charges to SNWA for the cost of ICUA caused to be developed by AWBA under this Agreement shall consist of the following pricing components:
 - 3.4.2.1 A capital component consisting of (1) the cost to develop any new recovery facility as to which the SNWA shall have a prior right of use, such cost to be paid in advance in a lump sum, or (2) a charge computed on a per acre-foot of ICUA developed basis to recover SNWA's proportionate share of the annual capital cost of other recovery facilities to be used for SNWA's benefit during the Year.
 - 3.4.2.2 An operation and maintenance (O&M) component computed on a per acre-foot of ICUA developed basis to recover SNWA's proportionate share of the O&M cost (including pumping energy) incurred by the owner/operator of any recovery facility used during the Year to develop ICUA for SNWA.
 - 3.4.2.3 An administrative component calculated as a lump sum to recover the actual administrative cost reasonably incurred by AWBA.

3.4.2.4 In the event that the cost of recovery for all or some of the water stored by AWBA in the State of Arizona increases due to unforeseen circumstances such as a cost for water treatment, or new state or federal regulations such as new water quality standards or additional environmental compliance requirements, SNWA agrees to share a reasonable proportion of such unanticipated costs, regardless of the location of such storage.

3.4.3 SNWA shall specify in its notice given under Subarticle 3.2.2 if, and the extent to which, ICUA is to be developed through the recovery of Long-term Storage Credits previously held by CAWCD for the benefit of SNWA under its October 15, 1992 agreement with The Metropolitan Water District of Southern California (identified in Recital G). The Parties acknowledge that pursuant to the terms of such agreement and prior to the effective date of the Original Agreement, SNWA made advance payments of the entire cost to recover such credits and to develop such ICUA.

3.5 Billing and Payment for Developing ICUA

3.5.1 AWBA shall notify SNWA of any charges for the development of recovery facilities as described in Subarticle 3.4.2.1(2) after agreement between AWBA and SNWA that additional recovery facilities are required for the development of the certified ICUA.

3.5.2 SNWA shall agree to an acceptable repayment schedule for costs specified in AWBA's Subarticle 3.5.1 notice prior to the construction of any additional recovery facilities. Following receipt of the SNWA payments pursuant to that schedule, AWBA shall remit the appropriate payments to the appropriate recovery facility owner/operators in accordance with AWBA's contractual agreements with those operators.

3.5.3 AWBA shall provide an estimate of the charges for any capital component described in Subarticle 3.4.2.1(2) and the recovery facility O&M described in Subarticle 3.4.2.2 to SNWA on or before the fifteenth of each month prior to the actual recovery. Such estimates may include adjustments or corrections to previous estimates.

3.5.4 SNWA shall pay the estimate of the capital component described in Subarticle 3.4.2.1(2) and the recovery facility O&M charge described in Subarticle 3.4.2.2 on or before the tenth day of the month following receipt of the estimate. If such day is not a business day, the payment shall be made on the next succeeding business day. Following receipt of the SNWA payment, AWBA shall remit the appropriate payment to the appropriate recovery facility operators in accordance with AWBA's contractual agreements with those operators.

- 3.5.5 No later than March 15 of the Year following the Year in which ICUA was recovered under the terms of this Agreement, AWBA shall provide SNWA and CRCN a Year end account reconciliation showing the actual Long-term Storage Credits recovered and whether charges for recovering the credits exceed payments made or payments exceed the amount owed. If additional funds are owed to AWBA by SNWA, they shall be paid within 10 business days of the date notice is provided by AWBA. If funds are due to SNWA, they shall be applied to SNWA's current Year recovery facility O&M charge and used to offset current payments in an amount equal to the excess payment. If no recovery under the terms of this Agreement is included in the AWBA Plan of Operation for the current Year, the funds shall be carried over and used to offset the recovery facility O&M charge for the Year in which recovery resumes. If recovery has not resumed within three years, AWBA shall remit the remaining funds to SNWA.
- 3.5.6 Charges for administrative services as described in Subarticle 3.4.2.3 shall be paid on a quarterly basis. Unless otherwise agreed in advance, each quarterly payment shall be an equal one-fourth of the administrative charge agreed upon for the fiscal year. AWBA shall provide an invoice for one quarter of the annual administration charge to SNWA on or before the 15th day of June, September, December and March for the quarter immediately following. If such day is not a business day, the invoice shall be made on the next succeeding business day.
- 3.5.7 SNWA shall pay administrative charges on or before the first day of the month following the receipt of the notice. If such day is not a business day, the payment shall be made on the next succeeding business day.

ARTICLE 4

DELINQUENT CHARGES AND SURETY OF PERFORMANCE

- 4.1 Delinquency Charges under the Terms of this Agreement
- 4.1.1 All payments due under this Agreement shall be paid promptly on the date required and, if not paid, shall be delinquent. Interest on delinquent payments may be assessed from the business day of the month on which the charge was due and shall accrue at the prime rate of interest as established by the Bank of America, plus 6% per annum, prorated by days of the unpaid principal, computed daily until payment is received. Any payment received shall first be applied to any interest owed, and then to any charges owed.
- 4.1.2 In the event any portion of the charges is disputed, the disputed amount shall be paid when due, but may be accompanied by a written statement indicating

the basis for any dispute. If the dispute is found to be valid, SNWA shall be refunded any overpayment plus interest, accrued at the rate set forth in Subarticle 4.1.1, prorated by days from the date payment was credited to SNWA to the date the refund check is issued.

4.1.3 In the event any delinquent amount is not paid by SNWA within thirty (30) days after receipt by SNWA of written notice from AWBA of the delinquency, AWBA shall have the right, without liability of any kind, to suspend recovery of any water under the terms of this Agreement so long as the delinquent amount remains unpaid. Such suspension shall not affect the Long-term Storage Credits remaining in the SNWA Interstate Account. Nothing herein shall limit the rights of AWBA to use any other available legal remedy to effect collection of delinquent amounts.

4.2 Surety of Performance under the Terms of this Agreement

4.2.1 In the event that a dispute arises over any action to be undertaken pursuant to the terms of this Agreement, all Parties recognize and acknowledge that time is of the absolute essence in the conduct of the Parties under the terms of this Agreement.

4.2.2 The Parties agree that the water resources being stored, forborne, and made available through exchange for use by SNWA under the terms of this Agreement are unique and very likely cannot be replaced in a timely fashion by other resources. Accordingly, the Parties agree that in any dispute over the development and release of ICUA, SNWA will likely be requesting an injunction ordering specific performance of the terms of this Agreement. The Parties agree that if AWBA opposes the specific enforcement of this Agreement with respect to ICUA, AWBA shall have the burden to show by clear and convincing evidence that it has the ability to, and will, make alternative water resources, other than water controlled by the United States under the Consolidated Decree, available at the SNWA system, free of adverse claims. If AWBA proposes to deliver such alternative water to SNWA, AWBA shall bear any additional costs that may be incurred over the costs that would have otherwise been incurred by SNWA for the delivery of ICUA under terms of this Agreement. SNWA shall be required to accept such alternative water resources if so ordered by a court of competent jurisdiction. Nothing in this Subarticle shall limit SNWA's rights to seek money damages or a remedy at law.

4.2.3 AWBA shall ensure that there are in effect all third party contracts necessary for the development of ICUA as provided in Article 3, the provisions of such contracts to be consistent with the provisions of this Agreement. AWBA shall insure that all such third party contracts are enforced in a manner consistent with the terms of this Agreement.

- 4.2.4 As required by A.R.S § 45-2471(E), if the terms of this Agreement are breached by SNWA or CRCN, AWBA shall cease the creation of ICUA until the breach is cured.

ARTICLE 5

OTHER PROVISIONS

5.1 Consultation on the AWBA Annual Report

- 5.1.1 AWBA is required to submit an annual report of its transactions and proceedings for the preceding year by July 1 each Year pursuant to A.R.S. § 45-2426. SNWA agrees to confer with AWBA staff in the development of the report.

5.2 The terms established by Subarticles 3.1, 3.2 and 3.5 may be changed upon written agreement of AWBA's authorized representative and the SNWA's General Manager.

5.3 Payment of federal charges relating to the Execution of a Storage and Interstate Release Agreement.

- 5.3.1 SNWA agrees that all federal charges associated with any amendment to the SIRA shall be borne by SNWA.

- 5.3.2 These charges shall be calculated by and paid directly to the Secretary by SNWA in accordance with the Secretary's requirements.

5.4 Successors to AWBA and SNWA

In the event that the AWBA should be dissolved or cease to perform any of the functions provided for in this Agreement, the rights and obligations of the AWBA shall be binding upon, and inure to the benefit of, any agency of the State of Arizona that succeeds to such functions or, in the absence of any such agency, the State of Arizona. In the event that the SNWA should be dissolved or cease to perform any of the functions provided for in this Agreement, the rights and obligations of the SNWA shall be binding upon, and inure to the benefit of, any successor joint powers agency or other legal subdivision of the State of Nevada that succeeds to such functions or, in the absence of any such agency, the members of the SNWA.

5.5 Uncontrollable Forces

No Party to this Agreement shall be considered in default in the performance of any of its obligations under the Agreement (other than the obligation of SNWA to make payment) when a failure of performance shall be due to uncontrollable forces. The term "uncontrollable force" shall mean any cause beyond the control of the Party unable to perform such obligation, including, but not limited to, failure or threat of failure of facilities, flood, earthquake, storm, fire, lighting, and other natural catastrophes, epidemic, war, civil disturbance or disobedience,

strike, labor dispute, labor or material shortage, sabotage, restraint by order of a court or regulatory agency of competent jurisdiction, and action or non-action by, or failure to obtain the necessary authorizations or approvals from, any federal governmental agency or authority, which by exercise of due diligence such Party could not reasonably have been expected to avoid and which by exercise of due diligence it shall be unable to overcome. Nothing contained herein shall be construed to require any Party to settle any strike or labor dispute in which it is involved.

5.6 Notices, Requests and Payments

5.6.1 All notices and other communications provided for in this Agreement shall be in writing and may be given in either of the following manners:

5.6.1.1 Notices and requests shall be in writing and maybe mailed first class postage paid to the Parties at the following addresses:

AWBA: Arizona Water Banking Authority
3550 North Central Avenue
Phoenix, Arizona 85012
Attn: Manager

SNWA: Southern Nevada Water Authority
1001 S. Valley View Boulevard
Las Vegas, Nevada 89153
Attn: General Manager

CRCN: Colorado River Commission of Nevada
555 E. Washington Avenue, Suite 3100
Las Vegas, Nevada 89101
Attn: Executive Director

5.6.1.2 Notices and requests may be given by facsimile and shall be deemed complete upon receipt from sender's facsimile machine indicating that the transmission was satisfactorily completed and after phone communication with administrative offices of the recipient notifying the recipient that a facsimile has been sent.

5.6.2 All payments required under the terms of this Agreement shall be made by Electronic Fund Transfer (EFT).

5.6.2.1 AWBA will notify the Treasury, State of Arizona monthly of any anticipated EFTs to be made by SNWA.

5.6.2.2 SNWA will submit all EFTs to the Treasury, State of Arizona at the account number designated by AWBA, or to such other destination as AWBA may designate by notice.

5.6.2.3 AWBA will ensure that all EFTs submitted by SNWA are properly accrued in the Nevada sub-account maintained at ADWR.

- 5.7 On request, AWBA shall provide SNWA with a copy of all contracts, rate schedules, and other documents that are relevant to or that form the basis for the charges specified in the Agreement.
- 5.8 The Parties to this Agreement are hereby notified of Arizona Revised Statutes section 38-511.
- 5.9 On reasonable advance written notice to AWBA and during normal business hours, SNWA shall have the right to inspect and audit all records of AWBA pertaining to the performance of AWBA's obligations pursuant to this Agreement.
- 5.10 This Agreement is not intended to confer any rights on any person other than the Parties hereto, and it shall not be construed as a third-party beneficiary contract or as conferring third-party beneficiary status or rights of any nature on any person.
- 5.11 This Agreement contains the entire understanding between the Parties relating to the transactions contemplated by this Agreement, notwithstanding any previous negotiations or agreements, oral or written, between the Parties with respect to the subject matter hereof. All prior or contemporaneous agreements, understandings, representations and statements, oral or written, regarding the subject matter of this Agreement are merged in this Agreement and shall be of no further force or effect.

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In Witness of this Agreement, the Parties affix their official signatures below.

SOUTHERN NEVADA WATER
AUTHORITY

DATE 3/22/13


Patricia Mulroy, General Manager

Approved as to form:

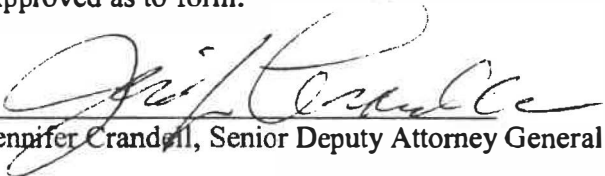

Dana R. Walsh, Deputy Counsel

COLORADO RIVER COMMISSION OF
NEVADA

DATE 5/14/13

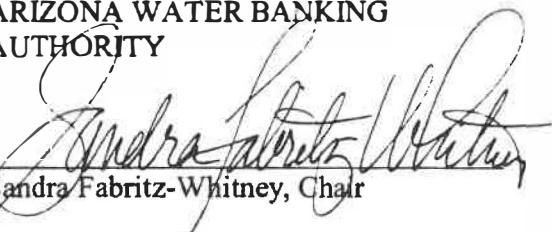

Jayne Harkins, Executive Director

Approved as to form:


Jennifer Crandall, Senior Deputy Attorney General

ARIZONA WATER BANKING
AUTHORITY

DATE 5-20-13


Sandra Fabritz-Whitney, Chair

Approved as to form:


Nicole D. Klobas, Deputy Counsel

RESOLUTION OF THE BOARD OF DIRECTORS
OF THE CENTRAL ARIZONA WATER CONSERVATION DISTRICT
Strategic Reserves and Water Rates
Approved May 2, 2013

WHEREAS, unexpected declines in the energy market and increases in the cost of electricity at Navajo Generating Station in 2012 and 2013 have resulted in reduced revenues and increased costs to the District;

WHEREAS, reduced revenues and increased costs in 2012 and 2013 have placed demands on the District's Strategic Reserves that bring the balance below an acceptable level of \$180 million and a preferred level of \$205 million;

WHEREAS, the Board of Directors believes that it is prudent to take steps to restore Strategic Reserves to an acceptable level and maintain them at a preferred level;

WHEREAS, the District's water delivery contract with the United States and the District's water delivery subcontracts with the Municipal and Industrial (M&I) customers provide for annual rate reconciliations and a refund or surcharge to customers based on those reconciliations;

WHEREAS, since 2002, the District has used the proceeds from sales of sulfur dioxide (SO₂) credits to fund annual rate reconciliations;

WHEREAS, the SO₂ credit proceeds are exhausted except for approximately \$7.5 million that the District desires to preserve for future needs; and

WHEREAS, the Finance, Audit & Power Committee adopted resolutions recommending that the Board of Directors approve actions to (i) address replenishment of the deficit in the District's Strategic Reserves, and (ii) adopt a preliminary revised rate schedule, consistent with the resolution set forth below; it is

RESOLVED, that the Board of Directors hereby approves the following actions to address the deficit in the District's Strategic Reserves and establish revised water rates for 2014-2015:

- a) replenish the District's Strategic Reserves with \$45 million drawn from the Water Storage (4-Cent Tax) Reserves;
- b) waive, for 2012 and 2013 only, the collection of amounts calculated and projected as part of the rate reconciliation for federal and M&I customers for those years;
- c) adopt the Preliminary Revised 2014-2015 Rate Schedule that incorporates the following provisions:
 - i. reflects full cost in the CAP Energy Rate for federal and M&I customers beginning in 2014, which will include annual rate reconciliation and refunds or surcharges to customers as appropriate;
 - ii. modifies the Ag Incentive Program to limit the annual net increase in cost to eligible Ag Pool participants to no more than \$4/acre-foot per year beginning in 2014;
 - iii. increases the M&I Capital Charges by \$4/acre-foot each year above the previously published advisory rates beginning in 2014; and
 - iv. makes no change to the published advisory rates for Fixed OM&R beginning in 2014.

RESOLUTION OF THE BOARD OF DIRECTORS
OF THE
CENTRAL ARIZONA WATER CONSERVATION DISTRICT
REGARDING AD VALOREM TAX FOR WATER STORAGE

(June 6, 2013)

WHEREAS, House Bill 2494 adopted by the Arizona Legislature in 1996 (Chapter 308, Laws of Arizona 1996, Forty-second Legislature, Second Regular Session) established the Arizona Water Bank and amended A.R.S. § 48-3715.02 relating to the tax levy for water storage; and

WHEREAS, A.R.S. § 48-3715.02, subsection B, provides that the Board of Directors (the "Board") of the Central Arizona Water Conservation District (the "District") shall fix the amount to be raised by direct taxation pursuant to its provisions, which amount shall not exceed four cents per one hundred dollars of assessed valuation; and

WHEREAS, the Board by separate action has fixed the tax rate pursuant to A.R.S. § 48-3715.02, subsection B, for the 2013/2014 tax year at four cents per one hundred dollars of assessed valuation; and

WHEREAS, A.R.S. § 48-3715.03 further provides that the Board shall determine annually by resolution whether any or all of the tax levied pursuant to A.R.S. § 48-3715.02, subsections B and C, shall be applied to the repayment of the construction costs of the Central Arizona Project ("CAP" or the "Project") or to the annual operation, maintenance, and replacement costs of the Project; and

WHEREAS, A.R.S. § 48-3715.03 further provides that those monies specified in such resolution for repayment of the construction costs or payment of the annual operation,

maintenance, and replacement costs of the Project shall be deposited in the District fund established pursuant to A.R.S. § 48-3712, subsection A, paragraph 5; and


WHEREAS, A.R.S. § 48-3715.03 further provides that a certified copy of such resolution shall be delivered to the Arizona Department of Water Resources;

NOW, THEREFORE, BE IT RESOLVED by the Board of Directors of the Central Arizona Water Conservation District, as follows:

1. That all of the taxes levied pursuant to A.R.S. § 48-3715.02, subsections B and C, in the 2013/2014 tax year shall be applied to repayment of the construction costs or payment of the annual operation, maintenance, and replacement costs of the Project; and
2. That all taxes levied pursuant to A.R.S. § 48-3715.02, subsections B and C, in the 2013/2014 tax year be deposited in a designated District account in the District fund established pursuant to A.R.S. § 48-3712, subsection A, paragraph 5; and
3. That a certified copy of this resolution be delivered to the Arizona Department of Water Resources.

I, the undersigned, as Secretary of the Central Arizona Water Conservation District, hereby certify that the foregoing is a true and correct copy of the resolutions duly adopted by the Board of Directors of the Central Arizona Water Conservation District at a meeting thereof, duly called and held on June 6, 2013, at which a quorum was present and acting throughout. I further certify that said resolutions have not been modified or revoked since their adoption and are still in full force and effect.

SIGNED THIS 6th DAY OF JUNE 2013.

By: 

Lisa A. Atkins
Secretary

Arizona Water Banking Authority

3550 N. Central Avenue, Phoenix, Arizona 85012

Telephone 602-771-8487

Fax 602-771-8686



AUTHORITY MEMBERS

Sandra Fabritz-Whitney, Chairman
Maureen R. George, Vice Chairman
Clifford A. Neal, Secretary
Jim Hartdegen
John Mawhinney

EX OFFICIO MEMBERS

Honorable Gail Griffin
Honorable Andy Tobin

May 14, 2013

Ms. Pamela Pickard, President
Board of Directors
Central Arizona Water Conservation District
PO Box 43020
Phoenix, AZ 85080-3020

RE: CAWCD Water Storage Tax Resolution for 2013-2014

Dear Ms. Pickard:

Thank you for giving me the opportunity to express the comments and concerns of the Arizona Water Banking Authority (AWBA) Commission on the Central Arizona Water Conservation District's (CAWCD) proposed use of Water Storage Tax at the Board of Directors' meeting on May 2, 2013. While the AWBA supported certain CAWCD staff recommendations, such as the proposed rate schedule, subsequently adopted, and the concept that the District's Strategic Reserves should not fall below 90% of the target previously established by the Board, the AWBA supported only limited use of the Water Storage Tax funds for replenishing the Strategic Reserves. As you know, the Board ultimately resolved to replenish the current shortfall to CAWCD's Strategic Reserves by drawing \$45 million from the Water Storage Tax fund (4¢ tax). As I had conveyed at the meeting, the AWBA feels strongly that in the future, CAWCD should not continue to rely on the 4¢ tax as a method for meeting financial shortfalls.

At that meeting, Ted Cooke, Assistant General Manager of Finance, gave a presentation on the 2013-2014 property tax rates for the General *ad valorem* and Water Storage taxes. In his presentation he noted that if CAWCD continues to levy and collect the Water Storage Tax for annual operation, maintenance, and replacement (OM&R) costs of the project or repayment of the construction costs, the monies could be deposited into various District accounts for later use. These accounts could include the Water Storage Fund, Strategic Reserves, or a different reserve fund. He suggested that the monies could also be utilized directly to meet current General *ad valorem* tax expenditures, e.g., providing incentives under the Agricultural Program, in order to free up General *ad valorem* tax monies for other purposes.

Although CAWCD has the flexibility to utilize the 4¢ tax revenues for various purposes, it is important to remember that the AWBA has not yet met its goals for firming municipal and industrial (M&I) CAP priority subcontract supplies during shortages, which would provide a significant benefit to CAWCD's subcontractors. Even though the current goals for Maricopa and Pinal counties may be achievable in the next ten years, the AWBA does not have a policy that indicates it would cease storing water once the goals have been met. Further, the current goals were established in 1997 based on modeling assumptions that have since changed and could continue to change over time. There are also other recent modeling efforts that suggest shortages could be deeper than currently predicted. Because of these changing circumstances,

the AWBA's position has been to store water so long as there is water, funding and storage capacity available to do so.

While current estimates indicate there may be little water available to the AWBA to store over the next few years, when the Agricultural Pool decreases from 400,000 acre-feet to 300,000 acre-feet in 2017, additional water should become available to the AWBA. It is also possible that in any given year, more excess CAP water could become available to the AWBA than currently anticipated from water turned back by other CAP customers. For these reasons, it is important that as much of the 4¢ tax monies as possible remain available for water storage by the AWBA to mitigate future CAP shortages and insure that Arizona can continue to utilize its full entitlement of Colorado River water.

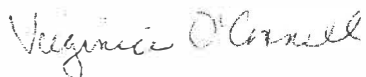
Unlike the General *ad valorem* tax, CAWCD's authority to levy and collect the 4¢ Water Storage Tax sunsets on January 1, 2017. CAWCD's ability to extend collection of the tax beyond 2017 cannot be predicted. Therefore, the monies collected until then should be considered a finite resource. Use of these funds for purposes other than water storage would considerably impact the AWBA's ability to store water in the long-term.

As CAWCD develops its resolutions for using the Water Storage Tax, the AWBA urges that CAWCD carefully consider the use of these monies for meeting uses other than for water storage. If it is the preference of CAWCD to maintain flexibility and keep the language similar to what was used in the 2012 Water Storage Tax resolution, AWBA staff suggests including a provision that recognizes that CAWCD's OM&R costs include water storage by the AWBA.

Because the AWBA will not have met its current firming goals, particularly in Pima County, the AWBA encourages CAWCD to include staff from the AWBA in its discussions when and if it evaluates extending its authority to collect the Water Storage Tax beyond 2017.

On behalf of the AWBA, I appreciate your consideration in this matter. Feel free to call me at (602) 771-8491 if you have any questions.

Sincerely,



Virginia O'Connell, Manager
Arizona Water Banking Authority

cc: David Modeer, CAWCD General Manager
Ted Cooke, CAWCD Finance
Warren Tenney, Finance, Audit, and Power Committee
Sandra Fabritz-Whitney, AWBA Chairman
Maureen R. George, AWBA Vice-Chairman
Clifford A. Neal, AWBA Secretary
Jim Hartdegen, AWBA Commission Member
John Mawhinney, AWBA Commission Member

IV. 2012 Annual Report

NOTES:

Call on **Virginia O'Connell** to give an overview of the Annual Report (Powerpoint presentation)

Call on **Terri Sue Rossi** to present the Ten-Year Plan. (Powerpoint presentation)

Documents in your books:

- 1) PowerPoint presentation on 2012 Annual Report
- 2) Draft 2012 Annual Report and Ten-Year Plan
- 3) Correspondence from Metro Water, dated June 17, 2013
- 4) Correspondence from Commission member John Mawinney regarding the future of the AWBA

ACTION:

Move approval of the **2012 Annual Report and Ten-Year Plan** as submitted or with minor or technical changes, based on discussion and direct staff to submit to Governor, Speaker of the House, and President of the Senate pursuant to statute.



2013 Annual Report and Ten-Year Plan

AWBA Quarterly Meeting
June 19, 2013

Presented by
Virginia O'Connell, AWBA Manager
Terri Sue Rossi, Technical Administrator



Arizona Water
Banking Authority

Annual Report: Today's Agenda

- Annual report requirements
- 2012 activities and projects
- Monies expended from Banking Fund
- Long-term storage credits



Arizona Water
Banking Authority

Annual Report Requirements

- **Accounting of AWBA transactions and proceedings for previous year**
- **All monies expended from Banking Fund and monies remaining**
- **Amount of water stored**
- **Number of Long-term storage credits distributed or extinguished**
- **Ten-Year Plan**



Arizona Water
Banking Authority

2012 Plan of Operation

- **Initial Plan – 120,002 AF**
 - 119,002 AF storage
 - 1,000 AF Southside Replenishment Bank
 - No Interstate storage
- **Final Deliveries - 133,973 AF**
 - includes 1,000 AF to SSRB
- **Arizona Consumptive Use – 2.79 MAF**
 - On-river 1.16 MAF
 - Central Arizona Project 1.63 MAF



Arizona Water
Banking Authority

Interstate Banking

- **Letter Amendment to Second Amended Agreement effective through 2014**
 - Deferred storage and development of ICUA
 - Deferred operating fund payments
- **SNWA, CRCN, CAWCD, and AWBA staff continued to meet to discuss the overall agreement including:**
 - Payment schedule, annual amounts, and repayment of loan



Arizona Water
Banking Authority

Interstate Banking

- **Draft Third Amended and Restated Agreement**
 - No obligation for AWBA to accrue future credits
 - SNWA payments of \$122.7 million meets payment obligation for 600,651 AF credits in SNWA account
 - Parties can agree to future storage, including storing Nevada's unused apportionment
 - Future storage is on a "pay-as-you-go" basis
 - Administrative costs – 15% of actual or \$20,000 in years when AWBA does not store for SNWA



Arizona Water
Banking Authority

Interstate Banking

- **Term of agreement changes:**
 - Agreement terminates when all existing and future credits are recovered
 - Existing credits must be recovered by December 31, 2063
 - Future credits must be recovered within 50 years of date of storage
 - Oldest credits are recovered first



Arizona Water
Banking Authority

Indian Firming Program

- **White Mountain Apache Tribe**
 - 3,750 AF firming obligation
 - Enforceability date April 30, 2021
 - Conform WMAT Water Rights Quantification Agreement to Federal legislation
 - Approval of Quantification Agreement by Gila River and Little Colorado River adjudication courts
 - State contribution of \$2 million toward construction of WMAT Rural Water System
 - Enforceability date anticipated in 2014



Arizona Water
Banking Authority

Indian Firming Program

- **Navajo Nation/Hopi Tribe**
 - Legislation introduced to Congress Feb. 14, 2012 authorizing Little Colorado River Settlement
 - 3,205.5 AF firming obligation
 - Hopi Tribal Council rejected the legislation in June
 - Navajo Nation Council rejected settlement in July
- **Hualapai Tribe**
 - Negotiations to settle claims to Colorado River
 - Proposed firming obligation would be within amounts remaining from 8,724 AF



Arizona Water
Banking Authority

Southside Replenishment Bank

- **AWBA Required to Deliver 15,000 AF to Gila River Indian Community to Establish Southside Replenishment Bank**
- **Requires Minimum Delivery of 1,000 AF per Year**
- **Can Be Used to Offset a Replenishment Obligation in Protection Zones**

Southside Replenishment Activities	2012 Deliveries (AF)	Cumulative Deliveries (AF)
Replenishment Obligations	0	0
Replenishment Bank	1,000	4,000
Total Direct Deliveries	1,000	4,000



Arizona Water
Banking Authority

Distribution of AWBA Credits

- **AWBA, ADWR, and CAWCD staff continued discussions on the distribution of AWBA credits during shortages**
- **Development of conceptual IGA that would identify each entities roles in the recovery and distribution of AWBA credits**
- **AWBA Developed Two Information Briefs**



Arizona Water
Banking Authority

Distribution of AWBA Credits

- 1. Capping the Distribution of AWBA Credits for M&I Firming during Shortages**
 - Limiting credits to 20% of M&I priority subcontract entitlement
 - Approved for planning purposes
- 2. Reducing the Amount of AWBA Credits Distributed for M&I Firming during Shortages to Extend Credits for Future Years**
 - 5% reduction to conserve credits
 - No position on need for madatory conservation



Arizona Water
Banking Authority

Distribution of AWBA Credits

- **Discussions evolved shifting toward the development of a Joint Recovery Plan**
- **Interagency Recovery Planning**
- **Cooperatively prepared a paper on one aspect of distributing 4¢ tax credits during shortages**
 - **Credits distributed to meet up to 20% of M&I Priority subcontract supplies consistent with existing M&I firming goals**
 - **Provides for consultation process in the event shortages exceed 20%**



Arizona Water
Banking Authority

Distribution of AWBA Credits

- **Ad Hoc Recovery Planning Group**
 - **Includes stakeholder representatives and ADWR, CAWCD, and AWBA staff**
 - **Provides input to Interagency Group on stakeholder concerns**
 - **Assists in reviewing the Joint Recovery Plan as it is developed**
- **Final Recovery Plan would assist stakeholders in planning future needs**



Arizona Water
Banking Authority

Modeling

- **ADWR, CAWCD, and AWBA staff workgroup continued work on developing consistent baseline assumptions for the Arizona CRSS model that all agencies would use**
- **A planning tool for determining when shortages might occur**
- **Collaborative effort that will continue over time**



Arizona Water
Banking Authority

2013 Plan of Operation

- **Total Supplies Available to Pool – 61,371 AF**
 - CAGR Reserve 3,565 AF
 - Federal 5,260 AF
- **Projected AWBA Deliveries**
 - 51,546 AF deliveries for storage (no interstate)
 - 1,000 AF Southside Replenishment Bank
 - Least amount available for storage since 1997



Arizona Water
Banking Authority

Monies Collected and Expended in 2012

Source of Funds	Money Collected	Money Expended
General Funds	-	-
MCWA Prepayments	\$103,600	\$103,600
State Indian Firming	-	-
Interstate	\$2,600	-
Shortage Reparation	-	-
4-Cent Tax	-	\$13,652,500
Maricopa County	-	\$8,387,300
Pinal County	-	\$679,000
Pima County	-	\$4,586,200
Withdrawal Fees	\$3,863,300	\$3,783,400
Phoenix AMA	\$1,788,700	\$1,744,700
Pinal AMA	\$1,658,200	\$1,583,900
Tucson AMA	\$416,400	\$454,800
TOTAL	\$3,969,500	\$17,539,500



Arizona Water
Banking Authority

Number and Location of Long-Term Storage Credits Accrued in 2012 (AF)

Funding Source	Phoenix AMA	Pinal AMA	Tucson AMA
Withdrawal Fees	15,379	13,101	3,216
4-Cent Tax	58,533	6,091	29,184
General Fund	-	-	-
Other:			
Indian Firming Appropriation	-	-	-
Shortage Reparation	-	-	-
Interstate - Nevada	-	-	-
TOTAL	73,912	19,192	32,399



Arizona Water
Banking Authority

Monies Collected and Expended Through 2012

Source of Funds	Money Collected	Money Expended	Money Available
General Fund	\$11,100,900	\$11,100,900	-
MCWA Prepayments	\$4,735,100	\$4,735,100	-
State Indian FIRMING	\$2,338,300	\$2,338,300	-
Interstate	\$109,347,000	\$109,087,800	\$259,200
Shortage Reparation	\$3,000,000	\$3,000,000	-
4-Cent Tax	\$266,724,600	\$136,728,300	\$84,996,400
Maricopa County	\$213,932,800	\$87,431,300	\$81,501,500
Pinal County	\$10,077,200	\$9,144,700	\$932,500
Pima County	\$42,714,700	\$40,152,300	\$2,562,400
Withdrawal Fees	\$43,103,800	\$42,857,700	\$246,100
Phoenix AMA	\$18,965,200	\$18,920,200	\$45,000
Pinal AMA	\$16,195,300	\$15,996,300	\$199,000
Tucson AMA	\$7,943,300	\$7,941,200	\$2,100
TOTAL	\$440,349,700	\$309,848,000	\$85,501,700



Arizona Water
Banking Authority

Identified Use of AWBA Credits through 2012

Objective	Funding Source	Goal (AF)	Credits Accrued (AF)	Progress Toward Goals/Oblig.	Estimated Remaining Costs (\$ Million)
M&I FIRMING					
Phoenix AMA	Maricopa 4¢	1,566,000	1,329,925	85%	\$47
Pinal AMA	Pinal 4¢	243,000	187,465	77%	\$4
Tucson AMA	Pima 4¢	864,000	390,334	45%	\$20
				W/Fees 56%	\$71(\$4+\$67)
Groundwater Mgmt					
Phoenix AMA	Withdrawal Fees		293,632		
Pinal AMA	Withdrawal Fees		394,896		
Tucson AMA	Withdrawal Fees		93,167		
On-River M&I FIRMING	General Fund	420,000		96%	\$3.4



Arizona Water
Banking Authority

Identified Use of AWBA Credits through 2012

Objective	Obligation	Goal (AF)	Non- LTS Credit Obligation Achieved	Credits Accrued (AF)	Progress Toward Goals/Oblig.	Estimated Remaining Costs (\$ Million)
Indian Settlements:						
GRIC Firming	up to 15,000 AF/YR	350,000		0	0%	\$12
Future Settlements	up to 8,724 AF/YR	200,000		0	0%	\$14
Federal Assistance	\$3,000,000		\$3,000,000	34,102	100%	\$0
Southside Replenishment Bank	15,000 AF Direct Delivery		4,000		27%	\$2



Arizona Water
Banking Authority

Identified Use of AWBA Credits through 2012

Objective	Obligation	Goal (AF)	Non-Credit Obligation Achieved	Credits Accrued (AF)	Progress Toward Goals/Oblig.	Estimated Remaining Costs (\$ Million)
Interstate Water Banking - NV	600,651			600,651	100%	\$0
Other:						
Shortage Reparation		\$8,000,000	\$3,000,000	82,375	37%	\$5
Pinal Redirect Credits				14,125		



Arizona Water
Banking Authority

Credits Distributed or Extinguished

- **Cumulative Credits 3.825 MAF**
 - **Arizona Uses 3.224 MAF**
 - **Nevada .601 MAF**
- **No Credits Distributed during 2012**
- **No Credits Extinguished during 2012**
- **No development of Intentionally Created Unused Apportionment**



Arizona Water
Banking Authority

Questions?



Arizona Water
Banking Authority

Ten-Year Plan: Today's Agenda

- **Background**
 - Purpose of Plan
 - Guiding principles
 - Plan components
- **Ten-Year Plan**
- **Results**
- **Conclusions**



Purpose of Ten-Year Plan

- **Support development of Annual Plan of Operation governing AWBA annual activities**
- **Support policy development**
- **Create strategy for meeting goals over time**



Key Guiding Principles

- Covers 2014 to 2023
- Adoption of CAWCD 2013-2014 rate schedule
- No Fund Transfers
- Maximizes water stored in Tucson AMA
- Continuation of Access to Excess Policy beyond 2014



Arizona Water
Banking Authority

Plan Components

- Common Components
 - Found in every Ten-Year Plan
- Plan-Specific Components
 - Specific to this Ten-Year Plan



Arizona Water
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Plan Components

- **Common Components**
 - **Components found in every Ten-Year Plan**
 - **Water available to AWBA**
 - **Funding**
 - **Storage Capacity**



Arizona Water
Banking Authority

Plan Components

- **Plan-Specific Components**
 - **Components specific to this Ten-Year Plan**
 - **Water management objectives**
 - **Indian settlements**
 - **Interstate banking**
 - **Shortages and recovery**



Arizona Water
Banking Authority

Ten-Year Plan

Table 7. Ten-Year Plan

ARIZONA WATER BANKING AUTHORITY Ten-Year Plan
2014 - 2023
(Amounts in \$ million)

YEAR	CAP Water Available for AWBA		CAP M&F Financing (AG loan)		Water Replenishment (PMT/Revol Fund)		Adaptation from General Fund		Shortage (Reparations) (\$ million)		Indian Settlement		Metastate Banking				
	Delivery	Debit	Delivery	Debit	Delivery	Debit	Delivery	Debit	Delivery	Debit	Delivery	Debit	Year Available	Delivery	Debit	CCAR	Remaining Debit
Pre-Plan ⁽¹⁾	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
2014	77,925	52,775	47,433	1,000	0	0	0	0	0	0	0	0	0	0	0	0	0
2015	84,621	56,152	42,367	1,300	0	0	0	0	0	0	0	0	0	0	0	0	0
2016	45,837	17,926	13,928	1,300	0	0	0	0	0	0	0	0	0	0	0	0	0
2017	17,953	15,394	11,944	1,300	0	0	0	0	0	0	0	0	0	0	0	0	0
2018	112,500	77,328	71,000	2,000	0	0	0	0	0	0	0	0	0	0	0	0	0
2019	102,100	71,112	67,151	2,000	0	0	0	0	0	0	0	0	0	0	0	0	0
2020	63,200	47,962	42,762	2,300	0	0	0	0	0	0	0	0	0	0	0	0	0
2021	64,200	42,812	38,301	2,600	0	0	0	0	0	0	0	0	0	0	0	0	0
2022	57,500	37,538	33,221	2,900	0	0	0	0	0	0	0	0	0	0	0	0	0
2023	50,500	34,712	30,271	3,200	0	0	0	0	0	0	0	0	0	0	0	0	0
TOTAL	689,700	458,888	418,888	20,000	0	0	0	0	0	0	0	0	0	0	0	0	0

(1) See Appendix B.
 (2) See Appendix D.
 (3) See Appendix E. In 2014 direct delivery of 1,000 acre-foot of water each year is diverted to the Pinal and Reclamation Bank at does not result in credits being applied.
 (4) See Appendix F.
 (5) See Appendix G.
 (6) See Appendix H. ARS 16-219(B)(2) allows for the use of water at fees after the state approval of the 10-year plan. If an amount has been expended, the water fee credits of the Plan may be used to offset the cost of this obligation. The provision amount includes credits from the Pinal and Reclamation Bank and the Pinal and Pinal M&F Bank. The state's obligation to the Pinal and Pinal M&F Bank is not a liability of the state. The state's obligation to the Pinal and Pinal M&F Bank is not a liability of the state. The state's obligation to the Pinal and Pinal M&F Bank is not a liability of the state.
 (7) See Appendix I.
 (8) Calculations are based on the 2013 credits are estimated based on the 2013 delivery.



Water Available to AWBA

- 670,000 acre-feet available during Ten-Year Plan
- Volume of water available tightens until 2017
- Tightens again by 2023
- Potential for significant variability as rate impacts unknown

YEAR	(a) CAP Water Available for AWBA
Pre-Plan ⁽¹⁾	0
2014	n/a
2015	70,000
2016	64,000
2017	45,000
2018	112,500
2019	102,100
2020	63,200
2021	64,200
2022	57,500
2023	50,500
TOTAL	689,700



Water Available to AWBA

- Assumes 50% of water available can be stored in Tucson
- Assumes 25% of water available can be stored in Pinal and Phoenix each
- Assumes unused water cascades down Tucson-Pinal-Phoenix

YEAR	(a) CAP Water Available for AWBA
Pre-Plan TM	
2014	n/a
2015	70,900
2016	64,600
2017	45,600
2018	112,500
2019	102,100
2020	85,200
2021	64,200
2022	57,500
2023	50,800
TOTAL	689,700



Arizona Water
Banking Authority

YEAR	(b) CAP M&I Firming (4¢ tax)	
	Delivery	Credits
Pre-Plan TM		1,924,870
2014	55,795	51,890
2015	46,109	42,881
2016	32,796	30,500
2017	75,235	70,898
2018	77,337	71,924
2019	61,703	57,383
2020	45,960	42,743
2021	40,652	37,806
2022	35,324	32,351
2023	24,578	23,136
TOTAL		2,386,884

CAP M&I Firming

- Assumes 4¢ tax monies are used after shortage sharing funds in Tucson AMA
- Assumes 4¢ tax monies are used before withdrawal fees in Tucson and Pinal AMAs



Arizona Water
Banking Authority

YEAR	(b) CAP M&I Firming (4¢ tax)	
	Delivery	Credits
Pre-Plan ⁽¹⁾		1,924,870
2014	55,795	51,890
2015	46,109	42,881
2016	32,796	30,500
2017	76,235	70,898
2018	77,337	71,924
2019	61,703	57,333
2020	45,960	42,743
2021	40,652	37,806
2022	35,324	32,851
2023	24,878	23,136
TOTAL		2,386,884

Arizona Water Banking Authority

CAP M&I Firming

- Assumes 85% of water available to store in Maricopa uses 4¢ tax monies
- Assumes 15% of water available to store in Maricopa uses withdrawal fees

YEAR	(b) CAP M&I Firming (4¢ tax)	
	Delivery	Credits
Pre-Plan ⁽¹⁾		1,924,870
2014	55,795	51,890
2015	46,109	42,881
2016	32,796	30,500
2017	76,235	70,898
2018	77,337	71,924
2019	61,703	57,333
2020	45,960	42,743
2021	40,652	37,806
2022	35,324	32,851
2023	24,878	23,136
TOTAL		2,386,884

Arizona Water Banking Authority

CAP M&I Firming

- 4¢ tax monies exhausted in Tucson and Pinal by 2017
- Over \$60 million available in Phoenix AMA by 2023
- Expect over 460,000 acre-feet of credits accrued with 4¢ tax monies

Water Management

- Assumes \$1.7 million collected per year in Maricopa County
- Assumes \$1.5 million collected per year in Pinal County
- Assumes \$400,000 collected per year in Pima County

YEAR	(c)	
	Water Management (Withdrawal Fees)	
	Delivery	Credits
Pre-Plan ⁽¹⁾		
2014		594,160
2015	1,000	0
2016	1,000	0
2017	1,000	0
2018	8,707	7,168
2019	2,895	1,762
2020	2,822	1,695
2021	2,753	1,630
2022	2,686	1,563
2023	2,621	1,508
TOTAL	2,559	1,450
		610,940



Arizona Water
Banking Authority

Water Management

- Withdrawal fees unused until 2017 in Tucson AMA
- Withdrawal fees used throughout plan in Pinal and Phoenix AMAs
- Surplus withdrawal fees available only in Phoenix AMA after 2017

YEAR	(c)	
	Water Management (Withdrawal Fees)	
	Delivery	Credits
Pre-Plan ⁽¹⁾		
2014		594,160
2015	1,000	0
2016	1,000	0
2017	1,000	0
2018	8,707	7,168
2019	2,895	1,762
2020	2,822	1,695
2021	2,753	1,630
2022	2,686	1,563
2023	2,621	1,508
TOTAL	2,559	1,450
		610,940



Arizona Water
Banking Authority

Water Management

- Assumes withdrawal fee credits accrued in Tucson used for M&I firming
- Assumes withdrawal fee credits accrued in Pinal and Phoenix AMAs assumed to be used for Indian firming

YEAR	(c)	
	Water Management (Withdrawal Fees)	
	Delivery	Credits
Pre-Plan ⁽¹⁾		
2014		594,750
2015	1,000	0
2016	1,000	0
2017	1,000	0
2018	8,707	0
2019	2,895	7,158
2020	2,822	1,762
2021	2,753	1,695
2022	2,686	1,630
2023	2,521	1,568
TOTAL	2,559	1,450
		610,940



Arizona Water
Banking Authority

Water Management

- Expect nearly 17,000 acre-feet of credits accrued for Tucson M&I firming

YEAR	(c)	
	Water Management (Withdrawal Fees)	
	Delivery	Credits
Pre-Plan ⁽¹⁾		
2014		594,750
2015	1,000	0
2016	1,000	0
2017	1,000	0
2018	8,707	0
2019	2,895	7,158
2020	2,822	1,762
2021	2,753	1,695
2022	2,686	1,630
2023	2,521	1,568
TOTAL	2,559	1,450
		610,940




Arizona Water
Banking Authority

General Appropriation

- Assumes no general fund appropriation

YEAR	(d) Appropriation from General Fund	
	Delivery	Credits
Pre-Plan ^(*)		403,830
2014	0	0
2015	0	0
2016	0	0
2017	0	0
2018	0	0
2019	0	0
2020	0	0
2021	0	0
2022	0	0
2023	0	0
TOTAL		403,830




Arizona Water Banking Authority

Shortage Reparations

- Assumes remaining shortage reparation monies will be used to store water in Tucson
- Expect 18,000 acre-feet of credits accrued

YEAR	(e) Shortage Reparations (\$8 Million)	
	Delivery	Credits
Pre-Plan ^(*)		91,306
2014	8,237	7,661
2015	5,139	4,779
2016	4,924	4,579
2017	0	0
2018	0	0
2019	0	0
2020	0	0
2021	0	0
2022	0	0
2023	0	0
TOTAL	0	108,325



Arizona Water Banking Authority

(f) Indian Settlement

YEAR	Delivery	Credits
Pre-Plan ¹¹		248,800
2014	5,368	5,457
2015	12,352	11,498
2016	7,080	6,584
2017	27,558	25,529
2018	21,868	20,337
2019	18,675	17,368
2020	15,487	14,403
2021	14,152	13,171
2022	12,355	11,965
2023	10,663	9,917
TOTAL		385,191

Arizona Water Banking Authority

Indian Settlement

- 34,000 acre-feet
- Assumes Phoenix and Pinal AMA withdrawal fee credits accrued are used for Indian firming.
- Expect over 135,000 acre-feet of credits

(g) Interstate Banking

YEAR	Delivery	Credits	ICUA	Remaining Credits
2014	0	600,651	0	600,651
2015	0	0	0	600,651
2016	0	0	0	600,651
2017	0	0	0	600,651
2018	0	0	0	600,651
2019	0	0	0	600,651
2020	0	0	20,000	580,651
2021	0	0	30,000	550,651
2022	0	0	40,000	510,651
2023	0	0	40,000	470,651
TOTAL		600,651	170,000	430,651

Arizona Water Banking Authority

Interstate Banking

- Assumes no storage for interstate
- Assumes recovery begins in 2019

Ten-Year Plan Results

Table 8. AWBA Percentage of Goals Achieved through 2013

Location and Objective	Funding Source	Goal	Obligation	Non-Credit Goal/Oblig. Achieved	Credits ¹ Accrued (AF)	Percent Goal/Oblig. Achieved
Phoenix AMA M&I Firming ²	Ad valorem tax	1,568,000	AF		1,671,535	107%
Groundwater Management ³	Withdrawal Fees				75,495	
Pinal AMA M&I Firming	Ad valorem tax	243,000	AF		224,540	92%
Groundwater Management ³	Withdrawal Fees				218,652	
Tucson AMA M&I Firming	Ad valorem tax	884,000	AF		490,838	57%
Groundwater Management ³	Withdrawal Fees				112,262	70%
Indian Settlements ⁴	General Fund	120,000	AF	up to 15,000 AF/YR	358,559	
GPIC Firming	Withdrawal Fees	250,000	AF		232,497	93%
Phoenix A-1-A Pinal AMA	Withdrawal Fees	200,000	AF	up to 5,724 AF/YR	292,787	146%
Future Settlement	Withdrawal Fees			\$3,000,000	24,232	100%
Federal Assistance ⁵ Tucson AMA	Appropriation Withdrawal Fees Cost of Services			\$3,000,000 2,500,000 AF \$33,228	2,697 5,627	n/a
Southside Replenishment Bank	Withdrawal Fees		15,000 AF Direct Obligation		8,000	53%
Intrastate Water Banking - Nevada ⁶	Contract with Nevada		608,050 AF		608,050	100%
Others: Shortage Reservations Nevada	Gifts, Grants, Donations	\$8,000,000			\$8,000,000	100%

¹ Credit Accrued: n/a
² 100% of the non-credit defined M&I firming goal for the Phoenix AMA is met in 2013.
³ 100% of the non-credit defined M&I firming goal for the Phoenix AMA is met in 2013.
⁴ M&I firming goal has been statutorily identified as a water management objective. Utilizing withdrawal fees credits for this purpose, 70% of the Phoenix AMA firming goal will be met by 2013.
⁵ 100% of the non-credit defined M&I firming goal for the Phoenix AMA is met in 2013.
⁶ 100% of the non-credit defined M&I firming goal for the Phoenix AMA is met in 2013.
 *Based on estimates from Indian Firming Study Commission Report dated January 6, 2008. AWBA is required to firm up to 23,724 AF/year and 100% of the future settlement firming goal is estimated to be met in 2013. Existing withdrawal fees of \$33.228 from Pinal and Phoenix are used to meet remainder of firming goals for GPIC and future settlement, respectively.
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Results: M&I Firming

Table 8. AWBA Percentage of Goals Achieved through 2013

Location and Objective	Funding Source	Goal	Obligation	Credits ¹ Accrued (AF)	Percent Goal/Oblig. Achieved
Phoenix AMA M&I Firming ²	Ad valorem tax	1,568,000	AF	1,671,535	107%
Groundwater Management ³	Withdrawal Fees			75,495	
Pinal AMA M&I Firming	Ad valorem tax	243,000	AF	224,540	92%
Groundwater Management ³	Withdrawal Fees			218,652	
Tucson AMA M&I Firming	Ad valorem tax	884,000	AF	490,838	57%
Groundwater Management ³	Withdrawal Fees			112,262	70%



Results: On-River Firming

Table 8. AWBA Percentage of Goals Achieved through 2013

Location and Objective	Funding Source	Goal	Credits ¹ Accrued (AF)	Percent Goal/Oblig. Achieved
On-River M&I Firming ⁴	General Fund	420,000 AF	403,830	96%



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Results: Indian Firming

Table 8. AWBA Percentage of Goals Achieved through 2013

Location and Objective	Funding Source	Goal	Obligation	Non-Credit Goal/Oblig. Achieved	Credits ¹ Accrued (AF)	Percent Goal/Oblig. Achieved
Indian Settlements ²						
GRIC Firming	Withdrawal Fees	350,000 AF	up to 15,000 AF/YR		350,000	100%
	Phoenix AMA				88,310	
	Pinal AMA				261,687	
Future Settlements	Withdrawal Fees	200,000 AF	up to 8,724 AF/YR		200,000	100%
Federal Assistance ³			\$3,000,000	\$3,000,000	34,102	100%
Tucson AMA	Appropriation			\$2,538,171	28,481	
	Withdrawal Fees			\$630,480	5,621	
	Cost of Services			\$21,339	n/a	
Southside Replenishment Bank	Withdrawal Fees		15,000 AF Direct Delivery		15,000	100%



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Results: Interstate Banking

Table 8. AWBA Percentage of Goals Achieved through 2023

Location and Objective	Funding Source	Goal	Obligation	Non-Credit Goal/Oblig. Achieved	Credits ¹ Accrued (AF)	Percent Goal/Oblig. Achieved
Interstate Water Banking - Nevada ²	Contract with Nevada		600,551 AF		600,651	
Other:						
Shortage Reparations - Nevada	Gifts, Grants, Donations	\$9,000,000		\$9,000,000	108,326	100%



Arizona Water Banking Authority

Conclusions

- Expect to deliver nearly 690,000 acre-feet
- Water available less than 60% of available water available in 2011 Ten-Year Plan
- Two choke points: 2016 and 2023

YEAR	(a) CAP Water Available for AWBA (2011 10-YR Plan)	(a) CAP Water Available for AWBA (2012 10-YR Plan)
2013	82,600	n/a
2014	78,400	70,900
2015	72,400	64,600
2016		
2017	155,700	112,500
2018	154,200	102,100
2019	152,600	83,200
2020	151,300	64,200
2021	149,500	57,500
2022	148,400	50,000
2023	n/a	
TOTAL	1,212,400	689,700



Arizona Water Banking Authority

...more conclusions

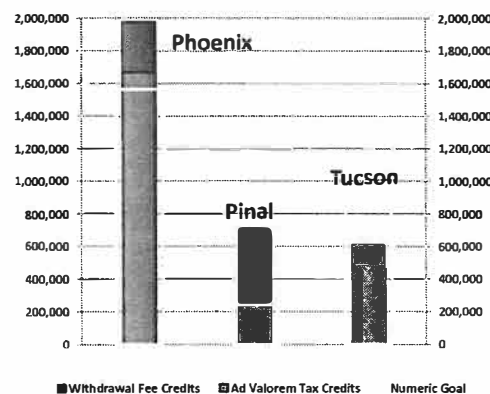
- **4¢ tax funding impacts:**
 - nearly 90% of funding available in Pima county
 - nearly 40% of funding available in Pinal county
 - will be available to Maricopa county throughout this plan
- **Absent appropriations, withdrawal fees will become primary source of funding for Indian firming**



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- **Numerically defined goals...**
 - Met in Phoenix in 2020
 - attainable in Pinal if withdrawal fee credits used
 - Not attainable in Tucson even if withdrawal fee credits used

...more conclusions



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Banking Authority

...more conclusions

- **Southside Replenishment Bank fully subscribed for initial deposit of 15,000 acre-feet**
- **Indian firming goals may only be able to be met if withdrawal fee credits from Phoenix and Pinal AMAs are used leaving around 300,000 acre-feet of withdrawal fee credits to address water management issues**



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...last conclusions

- **Region is moving closer to shortage conditions**
- **Probabilities and volumes are low during the planning period**
- **If recovery is triggered, then Indian obligations are expected to be affected first followed closely by on-river obligations**



Arizona Water
Banking Authority



2013 Annual Report and Ten-Year Plan

AWBA Quarterly Meeting
June 19, 2013

Presented by
Virginia O'Connell, AWBA Manager
Terri Sue Rossi, Technical Administrator

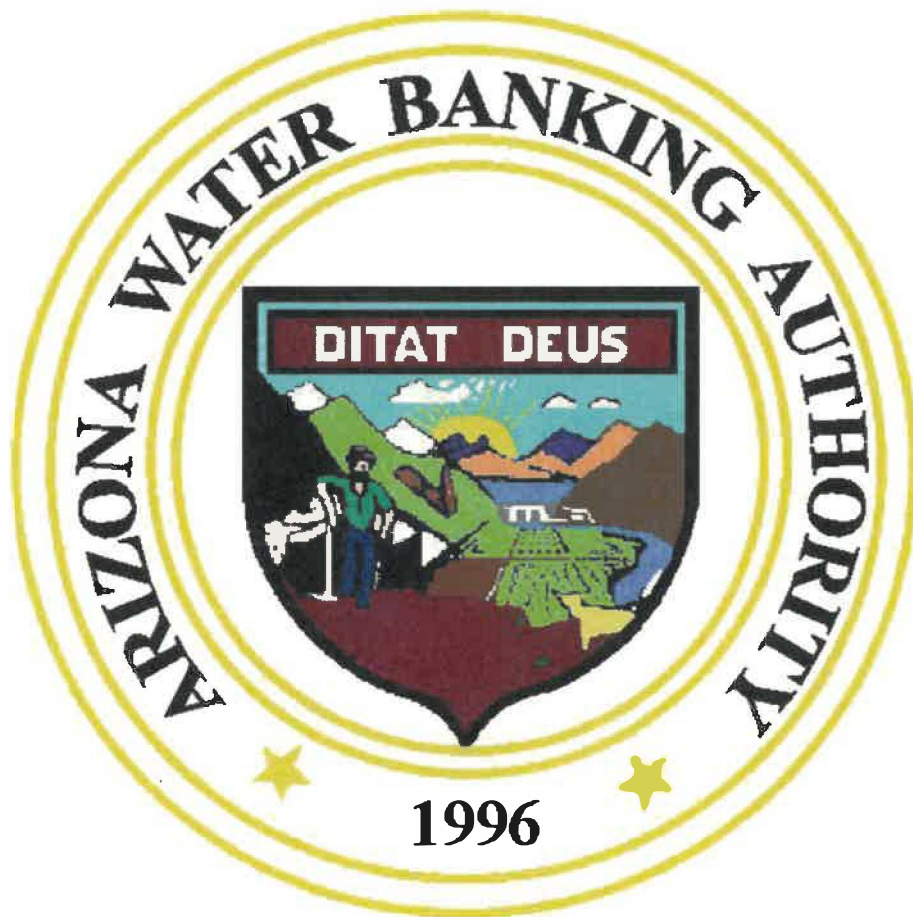


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ARIZONA WATER BANKING AUTHORITY

ANNUAL REPORT
2012



Submitted

July 1, 2013

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Arizona Water Banking Authority

Annual Report 2012

**Honorable Janice K. Brewer
Governor of Arizona**

Members

**Sandra Fabritz-Whitney
*Chairman***

**Maureen R. George
*Vice-chairman***

**Lisa A. Atkins
*Secretary***

**Marshall P. Brown/ Clifford A. Neal
*Member***

**John Mawhinney
*Member***

***Ex officio*
Senator Steve Pierce
Representative Andy Tobin**

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Acronyms and Abbreviations

ADWR	Arizona Department of Water Resources
Agreement to Firm	Agreement to Firm Future Supplies executed February 4, 2005 between the Arizona Water Banking Authority and the Mohave County Water Authority
Amended Agreement to Firm	Amended Agreement to Firm Future Supplies executed March 17, 2010.
AMA	Active Management Area
AWBA	Arizona Water Banking Authority
AWB Fund	Arizona Water Banking Fund
AWSA	Arizona Water Settlements Act
CAGR D	Central Arizona Groundwater Replenishment District
CAP	Central Arizona Project
CAWCD	Central Arizona Water Conservation District
CRCN	Colorado River Commission of Nevada
Credits	Long-term storage credits
CRSS	Colorado River System Simulation Model
Decree	Consolidated Decree of the U.S. Supreme Court in <i>Arizona v. California</i>
GRIC	Gila River Indian Community
GRIIDD	Gila River Indian Irrigation and Drainage District
GSF	Groundwater Savings Facility
ICUA	Intentionally Created Unused Apportionment
Interagency Group	Interagency Recovery Planning Group
IGA	Intergovernmental Agreement
JLBC	Joint Legislative Budget Committee
Letter Amendment	Letter Amendment to Second Amended Agreement for Interstate Banking Agreement signed December 9, 2010
M&I	Municipal and Industrial
MAF	Million Acre-feet
MCWA	Mohave County Water Authority
MDWID	Metropolitan Domestic Water Improvement District
Metropolitan	Metropolitan Water District of Southern California
NIA	Non-Indian Agricultural
Plan	Annual Plan of Operation
Quantification Agreement	White Mountain Apache Tribe Water Rights Settlement Agreement
Reclamation	U.S. Bureau of Reclamation
Second Amended Agreement	Second Amended Agreement for Interstate Water Banking signed April 1, 2009 between the Arizona Water Banking Authority and the Southern Nevada Water Authority and the Colorado River Commission of Nevada
SIRA	Storage and Interstate Release Agreement
SMRP	Superstition Mountains Recharge Project
SNWA	Southern Nevada Water Authority
SSRB	Southside Replenishment Bank
USF	Underground Storage Facility

Summary

The Arizona Water Banking Authority (AWBA) was created in 1996 to store the unused portion of Arizona's annual allocation of Colorado River water. Until the AWBA was created, Arizona had not fully utilized its 2.8 million acre-foot (MAF) allocation of Colorado River water and the state's leaders recognized that leaving a portion of Arizona's allocation in the river was a lost opportunity. The AWBA was created to provide assurances that water users within the state had secure, long-term water supplies.

The AWBA stores Colorado River water that would have otherwise been unused to accomplish the following goals:

- To firm (insure the availability of) water supplies for municipal and industrial users in the Central Arizona Water Conservation District (CAWCD) service area and along the Colorado River in times of shortages;
- To fulfill the management plan objectives of the Arizona Groundwater Code;
- To assist in the settlement of Indian water rights claims; and
- To assist Nevada and California through interstate water banking.

Each year, the AWBA pays the water delivery and storage costs to bring Colorado River water into Central and Southern Arizona through the Central Arizona Project (CAP) canal. The water is either stored underground in aquifers (direct recharge) at underground storage facilities (USF) or is used by irrigation districts in lieu of pumping groundwater (indirect or in lieu recharge) at groundwater savings facilities (GSF). The AWBA accrues long-term storage credits that can be recovered and used in the future during times of a shortage in supply, either by Arizona or by Nevada.

The funding for water storage that benefits Arizona (intrastate storage) comes from three sources. There are restrictions regarding the manner in which these funds can be expended based on the source of the monies, which currently include:

- Fees for groundwater pumping currently collected within the Phoenix, Pinal and Tucson Active Management Areas (AMA). These monies can only be used to benefit the AMA in which the fees are collected.
- A 4¢ *ad valorem* property tax collected in the three county CAWCD service area. These monies can only be used to benefit the county in which the tax is levied.
- A general fund appropriation received at the discretion of the Legislature.

In addition to these three sources of funding, an additional \$8 million for intrastate storage was made available from the Southern Nevada Water Authority (SNWA) pursuant to the Arizona-Nevada Shortage Sharing Agreement. This fund, referred to as the Shortage Reparation Fund, is intended to assist Arizona in storing water to offset impacts from Colorado River shortages that may occur during the Interim Period (2008 through 2026). In addition to the funding sources for intrastate storage, the AWBA also used funds provided by Nevada pursuant to the Second Amended Agreement for Interstate Water Banking (Second Amended Agreement) to create credits for the benefit of Nevada.

In calendar year 2012, AWBA deliveries for recharge totaled 132,973 acre-feet and cost \$17.3 million. The AWBA also paid \$122,000 for the delivery of 1,000 acre-feet to the Gila River Indian Community

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for the Southside Replenishment Bank (SSRB) as mandated by the intergovernmental agreement between the AWBA and the Gila River Indian Community.

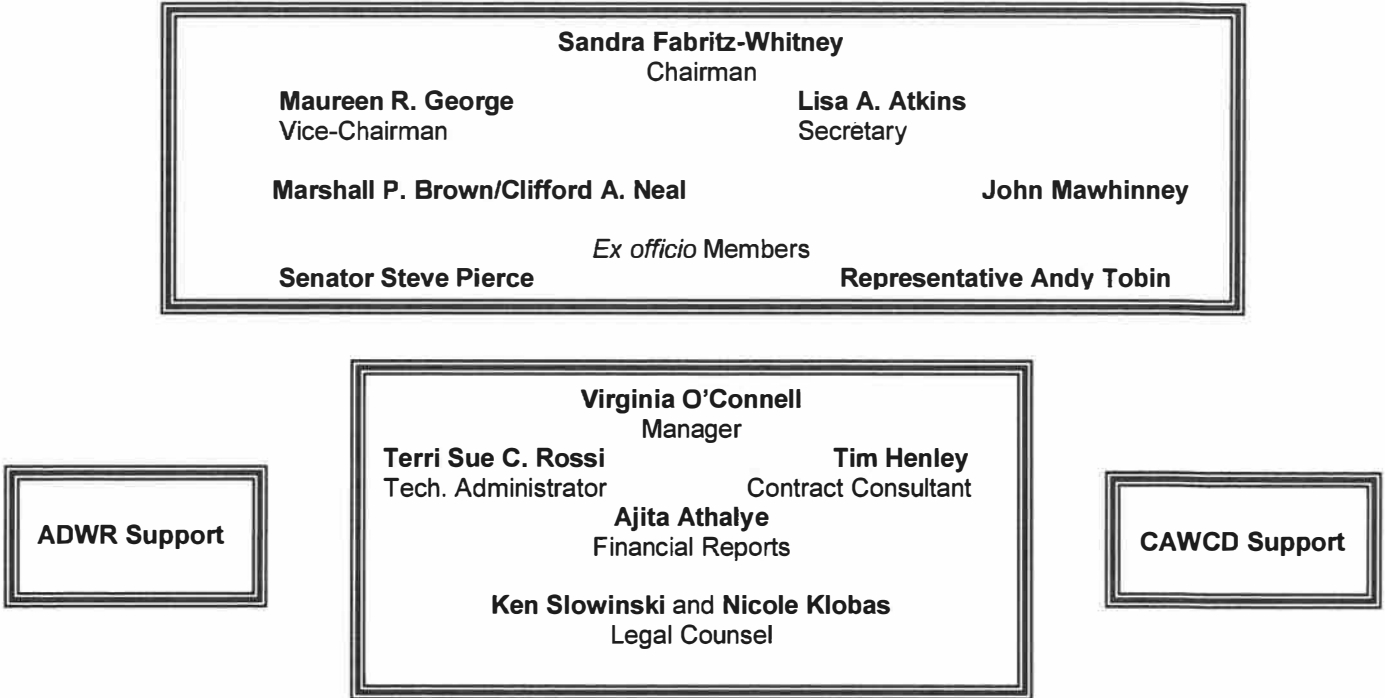
The AWBA has accrued approximately 3.8 million acre-feet of credits at a cost of approximately \$305 million from inception through calendar year 2012. Of this total volume, intrastate credits totaled just over 3.2 million acre-feet at a cost of around \$196 million or \$61 per acre-foot, and interstate credits totaled 550,651 acre-feet at a cost of around \$110 million or almost \$200 per acre-foot. In addition to the credits accrued by the AWBA, 50,000 acre-feet of credits previously accrued by CAWCD were transferred to the account creating a total of 600,651 acre-feet of credits available for Nevada.

Annual Report Requirement

Arizona Revised Statutes § 45-2426 mandates that the AWBA file an annual report with the Governor, President of the Senate, and Speaker of the House of Representatives on or before July 1 of each year for the previous calendar year. The report is required to be a full and complete account of the AWBA's transactions and proceedings and must include the following:

1. An accounting of all monies expended from the banking fund.
2. An accounting of all monies in the banking fund remaining available to the AWBA.
3. The amount of water stored by the AWBA.
4. The number of long-term storage credits distributed or extinguished by the AWBA.
5. The purposes for which long-term storage credits were distributed or extinguished by the AWBA.
6. A description of the water banking services and interstate water banking to be undertaken by the AWBA during the following ten-year period and a projection of the capacity of the AWBA during that period to undertake those activities in addition to storing Colorado River water brought into the state through the CAP for all of the following purposes:
 - a. Protecting this state's municipal and industrial (M&I) water users against future water shortages on the Colorado River and disruptions of operation of the CAP.
 - b. Fulfilling the water management objectives of the state.
 - c. Making water available to implement the settlement of water rights claims by Indian communities within Arizona.
7. Any other matter determined by the authority to be relevant to the policy and purposes of the AWBA.

AWBA Organizational Chart



There was one change to the membership of the AWBA Commission in 2012. Marshall P. Brown resigned from the Commission after accepting the position of Water Resource Director for the City of Aurora, Colorado. He was replaced by Clifford A. Neal from the City of Phoenix as the member who represents an entity that holds a Central Arizona Project municipal and industrial subcontract. There was also one change to the AWBA staff members. Terri Sue C. Rossi was hired as the Technical Administrator in May, replacing Gerry Walker who had submitted her resignation in October of 2011 for promotional opportunities within the Arizona Department of Water Resources.

Update

The AWBA Plan of Operation for 2012 (Plan) identified 120,002 acre-feet of water available for delivery from the 175,000 acre-foot pool created by CAWCD under its Access to Excess policy adopted in 2009. Pursuant to the Letter Amendment to the Second Amended Interstate Water Banking Agreement (Letter Amendment), the Plan did not include an interstate water banking component on behalf of Nevada. Early in the year, the Southern Nevada Water Authority (SNWA) informed the AWBA that it may have up to 60,000 acre-feet of unused apportionment available for storage in Arizona in 2012 and could also have water available over the next few years. SNWA indicated however that they did not have funds available to pay for the storage because they were focusing expenditures on completion of the third intake into Lake Mead. Because this storage would have been applied to the AWBA's contractual obligation to SNWA, the AWBA and CAWCD evaluated other potential options for storing Nevada's unused entitlement in Arizona.

In anticipation of storing Nevada's unused apportionment and to take advantage of aqueduct capacity when it was available, approximately 23,000 acre-feet in additional AWBA deliveries were made to the Tonopah Desert Recharge Project during February and March of 2012. However, the opportunity to store Nevada's allocation did not materialize. As the year progressed, this additional storage was offset by reduced requests by the AWBA's GSF partners and water that became available through CAWCD's process for remarketing previously allocated CAP supplies. Ultimately, the AWBA stored a total of 133,973 acre-feet of water in 2012, which included 1,000 acre-feet of direct deliveries to the Southside Replenishment Bank. The quantity of water that was delivered to each storage facility is described in Appendix A and totaled 78,026 acre-feet in the Phoenix AMA, 20,586 acre-feet in the Pinal AMA, and 34,361 acre-feet in the Tucson AMA.

Based on the Decree accounting data, total consumptive use of Colorado River water by Arizona for 2012 was 2.79 MAF. Distribution of the 2.79 MAF was approximately 1.16 MAF for direct uses along the Colorado River and CAP diversions of approximately 1.63 MAF (U.S. Bureau of Reclamation, Lower Colorado River Operations, Colorado River Accounting and Water Use Report Arizona, California, Nevada – Calendar Year 2012, dated May 2013). In 2012, storage by the AWBA assisted Arizona in using its entitlement to Colorado River water.

In 2012, the AWBA continued its quarterly meeting schedule with meetings on March 21, June 20, September 19, and December 19. There were no special meetings held by the AWBA. AWBA staff attended various workgroup meetings that continued throughout the year. These workgroups included the CAWCD, ADWR, and AWBA Interagency Recovery Planning Group, ADWR's Ad Hoc Recovery Planning Group, and the ADWR, CAWCD, and AWBA staff workgroup meetings on developing Arizona Colorado River baseline modeling assumptions.

For additional information regarding the AWBA, please see the AWBA website at www.azwaterbank.gov or contact Virginia O'Connell (voconnell@azwater.gov) or Terri Sue Rossi (tsrossi@azwater.gov) or by phone at 602-771-8487.

Activities and Projects - 2012

Interstate Banking

Pursuant to the Letter Amendment executed in December 2010, there was no storage or recovery for Nevada in 2012. The parties had agreed that because of hydrologic and economic conditions, the AWBA would forego additional interstate water banking for SNWA through 2014, and SNWA would forego requests for the development of intentionally created unused apportionment (ICUA) in the same time frame. The Letter Amendment also modified the payment schedule for the operating funds by deferring SNWA's payments until 2015.

In 2012, SNWA, CRCN, CAWCD, and AWBA staff continued to meet to discuss all aspects of the overall agreement including potential amendments to the payment schedule, the amount of the annual payments made by SNWA, and the repayment of monies loaned to SNWA from the Resource Account. As a result of those discussions, a draft Third Amended and Restated Agreement for Interstate Water Banking was presented to the AWBA Commission in December. The draft agreement included the following proposed changes:

- The AWBA no longer has an obligation to accrue future long-term storage credits to be held in the SNWA account.
- Payments made by SNWA to date (\$122,738,945) meet the obligation to pay for the 600,651 acre-feet of credits currently existing in the SNWA account.
- The parties can agree to future storage and accrual of credits to the SNWA account, including use of Nevada's unused apportionment for storage.
- SNWA bears all costs for any future delivery and storage of water, including administrative costs, which total 15% of the AWBA's actual administrative costs. SNWA pays \$20,000 per year for continuing administrative services in years when the AWBA does not store water for SNWA.
- There is no longer an Operating Account and a Resource Account. Costs for existing credits are considered paid in full and future storage costs are billed directly to SNWA.
- Term of agreement changes:
 - The agreement terminates when all existing and future credits in the SNWA account have been recovered, unless extended by written agreement.
 - Existing credits in the SNWA account must be recovered by December 31, 2063.
 - Future credits must be recovered within 50 years of the date of storage.
 - The oldest credits must be recovered first.

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The AWBA Commission elected to postpone action on the draft agreement until the next quarterly meeting scheduled for March 2013 so that they would have ample time to consider the proposed changes. Members of the public were asked to provide comments by January 31, 2013. [The agreement was subsequently executed May 20, 2013]

Interstate Water Banking Report

Since 2006, the AWBA has been required to submit a report to the Joint Legislative Budget Committee (JLBC) pursuant to A.R.S. § 45-2473. This report must be submitted by October 1 for the previous fiscal year if the AWBA was owed or received any monies pursuant to an interstate water banking agreement. The report must account for all monies received or disbursed pursuant to that agreement. Because the Letter Agreement deferred interstate banking activities through 2014, including water storage, the development of ICUA, and SNWA operating fund payments to the AWBA, the AWBA was not required to transmit an Interstate Water Banking Report to the JLBC for Fiscal Year 2011-2012. The AWBA will continue submitting its report once interstate activities resume in 2015 or if the AWBA is owed or receives monies pursuant to an interstate banking agreement that supercedes the Letter Agreement.

Water Storage Permits

The AWBA did not apply for or have any water storage permits issued in 2012. Staff however, attended an East Valley Water Forum meeting involving discussions on plans for a new regional recharge facility located in the eastern portion of the Phoenix AMA. The group is developing criteria to help determine the most suitable location for the proposed facility. Staff will continue to participate in these discussions as the AWBA has an interest in additional storage opportunities in this area.

Indian Firming Program

During 2012, AWBA staff participated with several Indian, non-Indian and Federal parties in discussions of various Indian water settlements. The AWBA concerns were mainly related to the need to firm water supplies resulting from the settlements.

White Mountain Apache Tribe

The Claims Resolution Act of 2010, which includes the White Mountain Apache Tribe Water Rights Quantification Agreement (Quantification Agreement), was signed by the President on December 8, 2010. Under this settlement, the AWBA is required to firm up to 3,750 acre-feet per year of non-Indian agricultural (NIA) CAP water until 2108. This obligation is part of the 8,724 acre-feet per year firming requirement identified for future settlements under the Arizona Water Settlements Act (AWSA). There are several activities that need to be completed to meet the enforceability date of April 30, 2021. These include: 1) revising the Quantification Agreement to conform to the federal legislation and execution of the revised agreement by the parties; 2) approval of the Quantification Agreement by the Gila River and Little Colorado River adjudication courts; and 3) a contribution of \$2 million from the State of Arizona toward the construction of the White Mountain Apache Tribe Rural Water System. The AWBA worked with the parties during the year on revisions to the Quantification Agreement and by year's end, ADWR submitted the amended and restated agreement to the Governor's Office for signature. In addition, during the 2012 Legislative Session, the Arizona Legislature appropriated \$2 million toward the settlement. It is anticipated that the enforceability date will be sometime in 2014.

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Navajo Nation/Hopi Tribe

During 2011, the AWBA continued to be involved in negotiations with the Navajo Nation, the Hopi Tribe, the United States, ADWR, and various state parties for a settlement of the Navajo/Hopi claims to the Little Colorado River. On February 14, 2012, Senator Jon Kyl introduced legislation to Congress authorizing a Little Colorado River Settlement. The parties finalized language for a proposed settlement in March and agreed to submit the settlement agreement to their principals for approval. The settlement included an allocation of NIA CAP water to Window Rock that would have an AWBA firming obligation of up to 3,205.5 acre-feet per year. While not specifically identified, this obligation was included in the AWSA as part of the firming obligation for future settlements and would therefore not result in an increase the AWBA's firming obligations. In June of 2012, the Hopi Tribal Council voted to reject the legislation and in July, the Navajo Nation Council voted to reject the settlement. The Tribes indicated however that they would leave the door open for additional negotiations to try to resolve the outstanding issues.

Hualapai Tribe

In 2012, the AWBA, along with the ADWR, United States, and certain state parties, entered into negotiations with the Hualapai Tribe to settle the Tribe's water rights claims, which include claims to the Colorado River. Any proposed firming obligations for the AWBA will be within the amounts remaining from the 8,724 acre-feet identified in the AWSA and firmed under the same terms. These negotiations remain on-going.

Southside Replenishment Bank

In 2009, the AWBA executed an intergovernmental agreement (IGA) with the Gila River Indian Community (GRIC) for the purpose of establishing the Southside Replenishment Bank (SSRB) as mandated by the AWSA. The AWBA must schedule the delivery of at least 1,000 acre-feet per year to the SSRB until 15,000 acre-feet have been delivered. The first delivery was made in 2009. Since then, the AWBA has scheduled the delivery of 1,000 acre-feet of water each year bringing the total volume of the SSRB to 4,000 acre-feet in 2012.

By memorandum dated September 11, 2012, the AWBA was informed by ADWR that there were no irrigation replenishment obligations for the 2011 reporting year. It is not anticipated that there will be irrigation replenishment obligations for the 2012 reporting year, but that information will not be available until October of 2013 and will be reported in the 2013 Annual Report.

Distribution of AWBA Credits

Recognizing drought conditions on the Colorado River and the impact dropping reservoir supplies will have on future water deliveries, the AWBA began in 2011, to evaluate the potential for shortages to Arizona. An analysis was made to evaluate the potential need to use existing and future AWBA long-term storage credits (credits) to meet CAP and on-river Municipal and Industrial (M&I) and Indian firming requirements during times of shortage. A series of operational scenarios were developed and modeled using the Colorado River System Simulation (CRSS). The analysis indicated that while firming CAP M&I subcontract supplies may not be needed until well into the future, there is a probability that the AWBA may need to firm Indian and on-river supplies in the near term.

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During 2012, the AWBA in conjunction with ADWR and CAWCD continued to discuss the distribution of AWBA credits during times of shortage. The initial efforts focused on the development of a conceptual IGA between ADWR, CAWCD and AWBA that would contain the various roles each agency might play in the recovery and distribution of AWBA credits. To assist in the discussions, the AWBA developed two information briefs. The first Information Brief, *Capping the Distribution of AWBA Long-term Storage Credits for M&I Firming during Shortages*, addressed the issue of whether AWBA credits should be limited to a maximum of 20% of the total M&I priority subcontract entitlement. Based on information provided in the brief and comments from the public, the AWBA made the decision to limit M&I firming to 20% for planning purposes.

The second Information Brief, *Reducing the Amount of AWBA Long-term Storage Credits Distributed for M&I Firming during Shortages to Extend Credits for Future Years*, addressed the question of whether there should be a mandatory 5% cut for conserving credits. The objective of mandatory conservation would be the extension of AWBA credits into the future, primarily in the Tucson AMA. The AWBA has taken no position on the need for mandatory conservation.

As 2012 progressed, the focus of the AWBA's efforts to look at credit distribution shifted from the development of a joint IGA to the development of conceptual recovery plan. Currently, two groups are working on the credit distribution issue: one is an interagency workgroup between the AWBA, ADWR and CAWCD and the other is an ad hoc group with stakeholder representatives.

The first group, called the Interagency Recovery Planning Group (Interagency Group), is attempting the development of a conceptual recovery plan that would provide guidelines for how recovery of AWBA credits may be accomplished in the future. The Interagency Group prepared a paper concerning one aspect of distributing credits accrued with the 4¢ *ad valorem* tax monies. The paper proposed that AWBA credits be distributed to CAP to meet up to 20% of M&I priority subcontract orders during shortage consistent with existing M&I firming goals. The paper also provides for a consultation process in the event shortages to M&I supplies are greater than 20%. Once the conceptual recovery plan has been agreed upon then it could be made available to the AWBA's constituents to assist them in planning for their future needs.

The second group is an ad hoc group, created by ADWR that includes stakeholder representatives as well as staff from the three agencies. This group provides the Interagency Group input to help it understand stakeholder concerns. It will also assist in reviewing the conceptual recovery plan as it is developed.

The expectation of this effort is to have a comprehensive program on not only how shortages are addressed, but also the recovery of AWBA credits for meeting other contractual obligations.

Modeling

The AWBA continues to meet with staff from ADWR's Colorado River Management section and CAWCD to develop consistent baseline assumptions for the Arizona CRSS model for all the agencies to use. The model is one of the tools available to the AWBA to determine when shortages might occur and also to determine where to store and recover water. The modeling process will continue to be a dynamic process and there will continue to be changes in the future. The three agencies understand they need to coordinate their efforts and have agreed to do so through this modeling group.

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2013 Plan of Operation

The amount of excess CAP water available to the AWBA for 2013 has decreased substantially from previous years. The AWBA currently purchases water from the excess CAP water pool that is available for use by the AWBA, Central Arizona Groundwater Replenishment District (CAGR) for replenishment reserves, and the Federal government for Indian firming purposes. When the CAWCD Board created this pool under its Access to Excess policy, it originally identified a volume of 175,000 acre-feet. The amount of water available to the pool has been decreasing each year since 2010 when the pool was first created. This has been due primarily to an increase in demand from CAP M&I priority subcontractors and Indian contractors. For 2013, CAWCD adjusted the volume of water available to this pool to 61,371 acre-feet. The portion available to the AWBA was 52,546 acre-feet. This is the least amount of water that has been available to the AWBA since it first began storing water in 1997.

Under the AWBA's 2013 Plan approved December 19, 2012, projected deliveries for the AWBA include 51,546 acre-feet for intrastate storage and 1,000 acre-feet for direct delivery to the GRIC for the SSRB. The Plan estimates 24,516 acre-feet will be recharged at USFs and 27,030 acre-feet will be recharge at GSFs. There is no interstate storage planned for 2013.

ADWR Fourth Management Plan

In 2011, ADWR started the process of developing its Fourth Management Plan. Starting in 2012, ADWR began meeting with its Groundwater User Advisory Councils for stakeholder input. ADWR has also asked AWBA staff to assist in updating the sections of the Management Plan applicable to the AWBA and to provide some suggestions on how the AWBA could potentially assist ADWR in meeting the water management goals of the AMAs where the AWBA operates.

Website

Staff continues to utilize the AWBA website in an effort to provide timely and accurate information to the water community regarding the AWBA's activities: www.azwaterbank.gov. The web page contains information about the AWBA, Commission members and staff, announcements, meetings, storage facilities and water deliveries. In 2012, staff updated the water delivery page to make additional information available to the public. The AWBA's water deliveries are now available either by statewide totals, by AMA, or by storage facility and includes annual and cumulative delivery amounts for each. This information is available for both intrastate and interstate deliveries. In addition to water deliveries, the information also includes the amount of credits the AWBA has accrued as a result of those deliveries. The webpage also contains documents that may be downloaded and provides links to other water-related websites.

Monies Expended from the Banking Fund

Arizona Revised Statutes §45-2425 mandates the various sources of monies for the Arizona Water Banking (AWB) Fund. The AWB Fund is administered by the AWBA. In 2012, the AWBA obtained its funding from the following sources:

1. Fees for groundwater pumping are collected within the Phoenix, Pinal and Tucson AMAs. Fees for water banking purposes are charged at \$2.50 per acre-foot. Legislative changes allow for groundwater withdrawal fees to be collected and available to the AWBA beyond 2016 (A.R.S. §45-611(c)(3)). Long-term storage credits accrued with these monies must be used to benefit the AMA in which the monies were collected.
2. No *ad valorem* tax revenues were deposited into the AWB Fund in 2012. In June of 2011, the CAWCD Board again resolved that all taxes to be levied for the following tax year would be retained by CAWCD. All *ad valorem* monies previously held in the AWB Fund were expended by 2007. Money from this source must be used to benefit the county in which it was collected.
3. No general fund appropriation money was deposited in the AWB Fund in 2012.
4. Pursuant to the Agreement to Firm Future Supplies (Agreement to Firm), Mohave County Water Authority (MCWA) agreed to prepay the AWBA to set aside 230,280 acre-feet of credits that were transferred to the MCWA sub-account. Once the credits were identified for use by an entity outside of the three-county service area, CAWCD was required to charge the AWBA a fee in lieu of the 4¢ *ad valorem* tax. Monies collected from MCWA are used to offset the CAWCD fees which are charged at the same rate and on the same quarterly schedule as MCWA's prepayments to the AWBA. The final payment due under the Amended Agreement to Firm was made by MCWA in November of 2010 for the first quarter of 2011. The first prepayment under the Amended Agreement to Firm that sets aside an additional 25,894 acre-feet of credits was made in September of 2011 for the quarter beginning on October 1.

Table 1 shows the money the AWBA collected and the money that was expended for delivery and storage of water in 2012 by source of funds. Table 2 shows the total money received, expended and remaining through December 2012 by source of funds.

Table 1. Monies Collected and Expended in 2012 by Source of Funds

Source of Funds	Money Collected	Money Expended
General Funds	\$0	\$0
In-Lieu Fund – MCWA Prepayments	\$103,576	\$103,576
State Indian Firming	\$0	\$0
Interstate Water Banking – Nevada¹		
Nevada Resource	\$1,964	\$0
Operating	\$687	\$0
Subtotal for Interstate	\$2,651	\$0
Shortage Reparations - NV	\$0	\$0
4¢ Ad valorem Tax²		
Maricopa County	\$0	\$8,387,340
Pinal County	\$0	\$679,016
Pima County	\$0	\$4,586,242
Subtotal for Ad valorem	\$0	\$13,652,598
Groundwater Withdrawal Fees		
Phoenix AMA	\$1,788,651	\$1,744,687
Pinal AMA	\$1,658,168	\$1,583,928
Tucson AMA	\$416,444	\$454,839
Subtotal for Withdrawal Fees	\$3,863,263	\$3,783,454
TOTAL	\$3,969,490	\$17,539,628

¹ Amount collected is interest and \$1914.43 in monies recovered from Lehman Brothers bankruptcy.

² Money expended by CAWCD to offset AWBA delivery and storage costs.

Table 2. Monies Collected and Expended through December 2012 and Monies Remaining Available

Source of Funds	Money Collected	Money Expended	Money Available ¹
General Funds	\$11,100,865	\$11,100,865	\$0
In-Lieu Fund - MCWA Pre-payments	\$4,735,070	\$4,735,070	\$0
State Indian Firming²	\$2,338,171	\$2,338,171	\$0
Interstate Water Banking-NV			
Pre-Amended Agreement	\$10,053,945	\$10,053,945	\$0
Nevada Resource ²	\$86,594,213	\$86,589,032	\$5,181
Operating	\$12,698,866	\$12,444,845	\$254,021
Subtotal for Interstate	\$109,347,024	\$109,087,822	\$259,202
Shortage Reparations - NV	\$2,999,748	\$2,999,748	\$0
4¢ Ad valorem Tax³			
Maricopa County ⁴	\$213,932,822	\$87,431,247	\$81,501,575
Pinal County	\$10,077,216	\$9,144,681	\$932,536
Pima County	\$42,714,667	\$40,152,327	\$2,562,340
Subtotal for Ad valorem	\$266,724,706	\$136,728,254	\$84,996,452
Groundwater Withdrawal Fees²			
Phoenix AMA	\$18,965,200	\$18,920,238	\$44,962
Pinal AMA	\$16,195,314	\$15,996,295	\$199,019
Tucson AMA	\$7,943,249	\$7,941,152	\$2,096
Subtotal for Withdrawal Fees	\$43,103,762	\$42,857,685	\$246,077
TOTAL	\$440,349,346	\$309,847,615	\$85,501,731

¹ Money remaining in AWB Fund or collected by CAWCD; includes monies committed for the 2013 Plan of Operation.

² Total money collected was decreased to reflect legislative transfers in CY 2004, CY 2005, CY 2009-2011.

³ Includes money collected and money expended by CAWCD to offset AWBA delivery and storage costs.

⁴ Total monies available was decreased to reflect the CAWCD Board of Directors resolution adopted May 2013 to transfer \$45 million to its Strategic Reserve Fund as part of the operation, maintenance and replacement costs of the project.

Long-term Storage Credits

The AWBA has established long-term storage credit accounts with ADWR for each AMA. After receiving the AWBA’s annual reports, ADWR calculates and issues credits to the appropriate accounts. The AWBA receives credit for 95 percent of the stored water. After credits are issued to the account, AWBA staff allocates the credits to the appropriate sub-accounts based on source of funding. The number and distribution of credits for 2012 are listed in Table 3. Cumulative credits accrued by the AWBA through December 2012 are listed in Table 4.

Table 3. Number and Location of Long-term Storage Credits Accrued in 2012

Location and Funding Source	Long-term Storage Credits Accrued (acre-feet)
Phoenix AMA	
4¢ <i>Ad valorem</i> Tax	58,533
Groundwater Withdrawal Fee	15,379
General Fund	0
Indian Firming	0
Shortage Reparations	0
Interstate - Nevada	0
AMA Total	73,912
Pinal AMA	
4¢ <i>Ad valorem</i> Tax	6,091
Groundwater Withdrawal Fee	13,101
General Fund	0
Indian Firming	0
Shortage Reparations	0
Interstate - Nevada	0
AMA Total	19,192
Tucson AMA	
4¢ <i>Ad valorem</i> Tax	29,184
Groundwater Withdrawal Fee	3,216
General Fund	0
Indian Firming	0
Shortage Reparations	0
Interstate - Nevada	0
AMA Total	32,399
Totals by Funding Source	
4¢ <i>Ad valorem</i> Tax	93,808
Groundwater Withdrawal Fee	31,695
General Fund	0
Indian Firming	0
Shortage Reparations	0
Interstate - Nevada	0
TOTAL	125,503

Table 4. Cumulative Total and Location of Long-term Storage Credits Accrued through December 2012

Location and Funding Source		Long-term Storage Credits Accrued (acre-feet)
Phoenix AMA		
	4¢ <i>Ad valorem</i> Tax	1,329,925
	Groundwater Withdrawal Fee	293,632
	General Fund	42,316
	Indian Firming	0
	Shortage Reparations	20,642
	Interstate Water Banking - Nevada	51,009
	AMA Total	1,737,523
Pinal AMA		
	4¢ <i>Ad valorem</i> Tax	187,465
	Groundwater Withdrawal Fee	394,896
	General Fund	306,968
	Indian Firming	0
	Shortage Reparations	60,507
	Interstate Water Banking - Nevada	439,851
	Other- (GSF Operator Full Cost Share)	14,125
	AMA Total	1,417,937
Tucson AMA		
	4¢ <i>Ad valorem</i> Tax	390,334
	Groundwater Withdrawal Fee ¹	98,788
	General Fund	54,546
	Indian Firming	28,481
	Shortage Reparations	1,227
	Interstate Water Banking - Nevada	109,791
	AMA Total	683,167
Totals by Source of Funds		
	4¢ <i>Ad valorem</i> Tax	1,907,724
	Groundwater Withdrawal Fee	787,317
	General Fund ²	403,830
	Indian Firming	28,481
	Shortage Reparations	82,375
	Interstate Water Banking – Nevada ³	600,651
	Other- (GSF Operator Full Cost Share)	14,125
	TOTAL	3,824,502

¹ Includes 234 acre-feet of credits purchased from the Tohono O’odham Nation pursuant to § 45-841.01.

² By resolution passed in 2002, the AWBA established on-river firming as the highest priority of use for credits accrued through expenditure of general fund appropriations. Pursuant to the AWBA Agreement to Firm with MCWA dated February 4, 2005, a total of 230,280 acre-feet of credits were transferred to the AWBA long-term storage subaccount for the MCWA in 2005. An additional 25,894 acre-feet of credits have been reserved under Exhibit C the Amended Agreement to Firm, dated December 8, 2010, for a total of 256,174 acre-feet. By resolution passed in 2008, the AWBA established a replacement account for 4th priority Colorado River M&I users.

³ Includes 50,000 acre-feet of credits transferred to SNWA.

Since inception, the AWBA has focused its efforts on developing long-term storage credits for firming purposes. The AWBA has identified 2,700,000 acre-feet of credits as a reasonable amount of credits to firm the CAP M&I subcontracts over the next 100 years. This volume is divided based on a pro-rata distribution by county based on CAP M&I subcontracts as follows: 58 percent Maricopa County, 32 percent Pima County, and 9 percent Pinal County.

The AWBA has also identified 420,000 acre-feet of credits as a reasonable amount of credits to firm the on-river communities over the next 100 years. In 2002, the AWBA adopted a resolution that

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identified on-river firming as the highest priority of use for the general fund credits and established priorities for other uses (Indian settlements, etc.). Consequently, all or part of the general fund credits could be utilized to firm on-river M&I users. It should be noted that the AWBA will collect reimbursement for the replacement cost of credits used for on-river firming. In 2008, the AWBA executed Resolution 2008-1 that established a long-term storage credit replacement account for 4th priority Colorado River M&I users. As credits are used and replaced, these replacement credits will be placed in a separate replacement subaccount and earmarked for the entity that reimburses the AWBA for the replacement of those credits. Table 5 illustrates the progress made by the AWBA towards meeting its established goals.

Table 5 also identifies the estimated remaining costs for meeting the AWBA's goals and obligations. These estimates are developed based on the assumptions contained in the AWBA's Ten-Year Plan for 2014-2023 and are subject to potential shortages discussed under the recovery section. For obligations that are not met in the Ten-Year Plan, 2024 estimated costs were assumed when calculating the amount remaining to meet the goals.

As described in the Ten-Year Plan section of this report, most of the firming goals will be met during the next ten years. Those not met include the Tucson AMA and on-river M&I firming goals. Approximately 70 percent of the Tucson AMA firming goal will have been met by 2023. Since all of the *ad valorem* tax monies will have been expended by 2017, the AWBA will need to rely on withdrawal fees to meet the remainder of this firming goal. Because revenue from withdrawal fees is limited in the Tucson AMA (about \$400,000 per year), the firming goal would not be met until well beyond 2023. Therefore, estimated rates for 2024 were used to calculate the total remaining costs for the Tucson AMA firming goal. Estimated expenditures under the Ten-Year Plan total \$24 million: \$20 million in *ad valorem* tax monies and \$4 million in withdrawal fees. The cost to accrue the credits needed to meet the remaining firming goal (30%) are estimated at \$67 million and would be limited to withdrawal fees. The total estimated cost for meeting the Tucson AMA firming goal is \$91 million.

Likewise, because it is not known if, or when, the AWBA will receive general fund appropriations in the future, the same method was applied to calculate the remaining on-river firming costs. It was also assumed that storage for on-river firming purposes would be at GSFs.

Lastly, the remaining costs for meeting the Indian firming goals were estimated by assuming that because the M&I firming goals could be met using *ad valorem* taxes and only a portion of existing withdrawal fee credits from the Pinal AMA, all withdrawal fee credits accrued in the Phoenix and Pinal AMAs in the next ten years would be applied toward meeting these goals. Existing withdrawal fee credits in the Pinal AMA and credits accrued from storage at the Gila River Indian Irrigation and Drainage District (GRIDD) GSF, could be used to meet the remaining firming goal. Existing withdrawal fee credits from the Phoenix AMA could be used to meet the firming goal for future Indian settlements. Because funding has already been expended for these credits, they were not included in the calculation for remaining costs.

Table 5. Identified Uses of Long-term Storage Credits Accrued through December 2012 and Percentage of AWBA Goals Achieved

Location and Objective	Funding Source	Goal	Obligation	Non-Credit Goal/Oblig. Achieved	Credits Accrued (AF)	Percent Goal/Oblig. Achieved	Estimated Remaining Costs (\$ Million)
Phoenix AMA M&I Firming Groundwater Mgmt ²	<i>Ad valorem</i> tax Withdrawal Fees	1,566,000 AF			1,329,925 293,632	85% 104%	\$47
Pinal AMA M&I Firming Groundwater Mgmt ²	<i>Ad valorem</i> tax Withdrawal Fees	243,000 AF			187,465 394,896	77% 240%	\$4
Tucson AMA M&I Firming Groundwater Mgmt ²	<i>Ad valorem</i> tax Withdrawal Fees	864,000 AF			390,334 93,167	45% 56%	\$20 \$71
On-River M&I Firming³	General Fund	420,000 AF			403,830	96%	\$3.4
Indian Settlements: GRIC Firming	Withdrawal Fees	350,000 AF ⁴	up to 15,000 AF/YR		0 ⁵	0%	\$12
Future Settlements	Withdrawal Fees	200,000 AF ⁴	up to 8,724 AF/YR		0 ⁵	0%	\$14
Federal Assistance ⁶ Tucson AMA	Appropriation Withdrawal Fees Cost of Services		\$3,000,000	\$3,000,000 \$2,338,171 \$630,490 \$31,339	34,102 28,481 5,621 n/a	100%	\$0
Southside Repl. Bank	Withdrawal Fees		15,000 AF Direct Delivery		4,000	27%	\$2
Interstate Water⁷ Banking – NV	Contract with Nevada		600,651 AF		600,651	100%	N/A
Other: Shortage Reparation -Nevada	Gifts, Grants, Donations	\$8,000,000		\$2,999,748	82,375	37%	\$5
Pinal Redirect Credits ⁸	n/a				14,125		

¹ Based on the ten-year plan and an assumed rate escalation of 4% for water storage costs after 2018

² Withdrawal fees could be utilized in addition to 4¢ *ad valorem* tax revenues for M&I firming if needed to reach firming goals.

³ By resolution passed in 2002, the AWBA established on-river firming as the highest priority of use for credits accrued through expenditure of general fund appropriations. Pursuant to the Agreement to Firm dated February 4, 2005, a total of 230,280 acre-feet of credits were transferred to the AWBA long-term storage subaccount for MCWA in 2005. An additional 25,894 acre-feet of credits have been reserved under Exhibit C the Amended Agreement to Firm, dated December 8, 2010, for a total of 256,174 acre-feet.

⁴ Based on estimates from the Indian Firming Study Commission Report dated January 6, 2006.

⁵ No credits have been dedicated for this purpose but Withdrawal Fee Credits could be used if a shortage were to occur.

⁶ Expenditures include \$14,883 and \$16,456 deducted for payment of cost of services for FY 08 and FY 09, respectively.

⁷ Pursuant to the Third Amended and Restated Agreement for Interstate Water Banking, storage on behalf of SNWA will be determined by the parties on an annual basis.

⁸ Credits accrued from AWBA water provided to Pinal AMA GSFs at full cost to the GSF operators. These credits are currently identified for use in the Tucson AMA.

The average annual cost for the AWBA to obtain one acre-foot of long-term storage credit for intrastate and interstate storage is presented in Tables 6a and 6b, respectively. Table 6a illustrates that the unit cost per credit for intrastate storage fluctuates yearly primarily based on water delivery and storage facility costs. For example, the significant increase beginning 2010 is due to CAWCD eliminating the incentive recharge cost structure.

Table 6a. Average Annual Cost for the AWBA to Obtain a Long-term Storage Credit for Intrastate Storage

Year	Credits ¹	Funds Expended	Average Cost (per acre-foot)	Ratio of GSF to USF
1997	296,987	\$6,387,000	\$21.51	85:15
1998	202,542	\$7,143,000	\$35.27	68:32
1999	232,142	\$8,733,000	\$37.61	68:32
2000	272,123	\$11,163,000	\$41.02	60:40
2001	275,406	\$10,893,590	\$39.55	62:38
2002	262,317	\$13,700,300	\$52.23	64:36
2003	200,168	\$11,077,666	\$55.34	47:53
2004	251,456	\$17,855,997	\$71.01	41:59
2005	85,782	\$5,615,201	\$65.46	58:42
2006	162,342	\$14,720,277	\$90.67	17:83
2007	245,221	\$14,589,390	\$59.49	37:63
2008	203,373	\$8,168,100	\$40.16	65:35
2009 ²	99,453	\$6,977,590	\$70.16	76:24
2010	181,214	\$26,027,947	\$143.63	21:79
2011	127,605	\$16,543,540	\$129.65	33:67
2012	125,503	\$17,314,052	\$137.96	42:58

¹ Information in this table is reconciled on an annual basis.

² Does not include credits purchased pursuant to § 45-841.01.

Table 6b illustrates the unit cost per long-term storage credit for interstate also fluctuates yearly. Pursuant to the Letter Agreement, no interstate storage occurred in 2011 or 2012.

Table 6b. Average Annual Cost for the AWBA to Obtain a Long-term Storage Credit for Storage on Behalf of Nevada

Year	Credits	Funds Expended	Average Cost (per acre-foot)	Ratio of GSF to USF
2002	61,098	\$8,617,393	\$141.04	100:0
2003	50,000 ¹			
2004	14,162	\$2,899,647	\$204.75	66:34
2005	111,805	\$25,723,366	\$230.07	65:35
2006	175,569	\$35,386,306	\$201.55	68:32
2007	114,886	\$21,853,906	\$190.22	91:09
2008	None	None	\$0	0:0
2009	55,252	\$10,781,853	\$195.14	45:55
2010	17,879	\$3,825,350	\$213.96	0:100

¹ Long-term Storage Credits transferred from CAWCD.

Long-term Storage Credits Distributed or Extinguished by the Authority

The long-term storage credits developed by the AWBA to date have been identified for five purposes:

- Firming CAP M&I entitlements;
- Firming the post-1968 M&I entitlements for entities outside the CAP service area;
- Firming for the Federal obligation under the AWSA;
- Fulfilling the water management objectives set forth in Chapter 2 of Title 45 (Arizona Revised Statutes); and
- Interstate water banking purposes pursuant to agreements with Nevada.

Credits created by the AWBA for firming purposes may be distributed or extinguished when the Colorado River system is deemed to be in a shortage or if there is an operational disruption of the CAP. There were no shortages or unplanned CAP operational problems, therefore, no credits were distributed or extinguished for these purposes in 2012. No credits were distributed or extinguished in 2012 for water management purposes.

Under the 1999 amendments to the AWBA legislation, the AWBA is authorized to develop credits with monies collected pursuant to water banking services agreements. In 2012, no credits were developed or distributed under such agreements.

The AWBA did not recover or distribute any credits in 2012.

Ten-Year Plan

Introduction

Pursuant to A.R.S. §45-2426, the AWBA is required to prepare a Ten-Year Plan. The Ten-Year Plan must include a description of any water banking activities the AWBA intends to undertake in addition to the three primary AWBA functions of firming for M&I supplies, assisting in Indian water rights settlements, and fulfilling state water management objectives. The Ten-Year Plan is presented in Table 7. The Ten-Year Plan must also provide an analysis of the AWBA's ability to complete those activities. This analysis is provided in Table 8. The Ten-Year Plan is not a guarantee of future storage activities and is completed for planning purposes only. In any given year, the AWBA's activities are governed by the annual Plan of Operation. This Ten-Year Plan is projected to create over 630,000 acre-feet of long-term storage credits.

The Ten-Year Plan (Table 7) analyzes activity for the period 2014-2023 and was derived using the information found in Appendices A through J. AWBA accounting for previous years can be found in the 2011 Annual Report and 2013 Plan of Operation. The plan is an important tool to be utilized in development of 1) the next year's annual Plan of Operation and 2) policy guidelines for future AWBA activities. AWBA staff developed the Ten-Year Plan based on the following guiding principles:

1. The Ten-Year Plan covers a ten-year time period beginning with the next calendar year. For example, this Ten-Year Plan covers the time period 2014-2023.
2. The Ten-Year Plan incorporates current priorities and limitations of the AWBA. Specifically, this Plan maximizes the amount of water stored in the Tucson AMA, while strategically storing water for future recovery, in order to move closer to firming goals in Tucson.
3. The Ten-Year Plan incorporates CAWCD's adopted 2013-2014 rate schedule.
4. The Ten-Year Plan assumes there are no legislative transfers from the AWB Fund or transfers from the water storage tax funds held by CAWCD.
5. The Ten-Year Plan assumes CAWCD's Procedure to Distribute Excess Water from 2010 through 2014 is extended through the Ten-Year Plan period.

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Table 7. Ten-Year Plan

ARIZONA WATER BANKING AUTHORITY – Ten-Year Plan																
2014 – 2023																
(Acre-feet)																
YEAR	(a)	(b)		(c)		(d)		(e)		(f)		(g)				
	CAP Water Available for AWBA	CAP M&I FIRMING (4¢ tax)		Water Management (Withdrawal Fees)		Appropriation from General Fund		Shortage Repairs (\$8 Million)		Indian Settlement		Interstate Banking				
		Delivery	Credits	Delivery	Credits	Delivery	Credits	Delivery	Credits	Delivery	Credits	Water Available	Delivery	Credits	ICUA	Remaining Credits
Pre-Plan ^(h)	n/a	1,924,870		594,160		403,830		91,306		248,883				600,651		600,651
2014	70,900	55,795	51,890	1,000	0	0	0	8,237	7,661	5,868	5,457	0	0	0	0	600,651
2015	64,600	46,109	42,881	1,000	0	0	0	5,139	4,779	12,352	11,488	0	0	0	0	600,651
2016	45,800	32,796	30,500	1,000	0	0	0	4,924	4,579	7,080	6,584	0	0	0	0	600,651
2017	112,500	76,235	70,898	8,707	7,168	0	0	0	0	27,558	25,629	0	0	0	0	600,651
2018	102,100	77,337	71,924	2,895	1,762	0	0	0	0	21,868	20,337	0	0	0	0	600,651
2019	83,200	61,703	57,383	2,822	1,695	0	0	0	0	18,675	17,368	0	0	0	20,000	580,651
2020	64,200	45,960	42,743	2,753	1,630	0	0	0	0	15,487	14,403	0	0	0	30,000	550,651
2021	57,500	40,652	37,806	2,686	1,568	0	0	0	0	14,162	13,171	0	0	0	40,000	510,651
2022	50,800	35,324	32,851	2,621	1,508	0	0	0	0	12,855	11,955	0	0	0	40,000	470,651
2023	38,100	24,878	23,136	2,559	1,450	0	0	0	0	10,663	9,917	0	0	0	40,000	430,651
TOTAL	689,700	2,386,884		610,940		403,830		108,326		385,191				600,651	170,000	

(a) See Appendix B.

(b) See Appendix D.

(c) See Appendix E. Includes direct delivery of 1,000 acre-feet of water each year delivered to the Southside Replenishment Bank that does not result in credits being accrued.

(d) See Appendix F.

(e) See Appendix G.

(f) See Appendix H. A.R.S. §45-2491(B)(2) allows for the use of withdrawal fees after legislative appropriations for Indian firming have been expended. Withdrawal fee credits accrued in the Phoenix and Pinal AMAs could be utilized to meet this obligation. The pre-plan amount includes credits accrued from storage at the GRIIDD GSF and withdrawal fee credits accrued in the Phoenix and Pinal AMAs since 2008. The State's Indian firming obligation is estimated at 550,000 acre-feet. In addition, 34,102 acre-feet of credits have been accrued to meet the State's obligation under Section 306 of the AWSA (\$3 million for Federal assistance).

(g) See Appendix I.

(h) Cumulative credit totals for 1997-2012 are actual; 2013 credits are estimated based on projected deliveries.

Table 8. AWBA Percentage of Goals Achieved through 2023

Location and Objective	Funding Source	Goal	Obligation	Non-Credit Goal/Oblig. Achieved	Credits ¹ Accrued (AF)	Percent Goal/Oblig. Achieved
Phoenix AMA M&I Firming ² Groundwater Management ³	Ad valorem tax Withdrawal Fees	1,566,000 AF			1,671,505 75,495	107%
Pinal AMA M&I Firming Groundwater Management ³	Ad valorem tax Withdrawal Fees	243,000 AF			224,540 218,652	92%
Tucson AMA M&I Firming Groundwater Management ³	Ad valorem tax Withdrawal Fees	864,000 AF			490,838 112,262	57% 70%
On-River M&I Firming⁴	General Fund	420,000 AF			403,830	96%
Indian Settlements⁵: GRIC Firming Phoenix AMA Pinal AMA	Withdrawal Fees	350,000 AF	up to 15,000 AF/YR		350,000 88,313 261,687	100%
Future Settlements	Withdrawal Fees	200,000 AF	up to 8,724 AF/YR		200,000	100%
Federal Assistance ⁶ Tucson AMA	Appropriation Withdrawal Fees Cost of Services		\$3,000,000	\$3,000,000 \$2,338,171 \$630,490 \$31,339	34,102 28,481 5,621 n/a	100%
Southside Replenishment Bank	Withdrawal Fees		15,000 AF Direct Delivery		15,000	100%
Interstate Water Banking - Nevada⁷	Contract with Nevada		600,651 AF		600,651	100%
Other: Shortage Reparations-Nevada	Gifts, Grants, Donations	\$8,000,000		\$8,000,000	108,326	100%
Pinal Redirect Credits ⁸	n/a				14,125	

¹ 1997-2012; actual credits through 2012 and estimated credits for 2013 based on projected deliveries.

² 100% of the numerically defined M&I firming goal for the Phoenix AMA is met in 2020.

³ M&I firming has been statutorily identified as a water management objective. Utilizing withdrawal fee credits for this purpose, 70% of Tucson AMA firming goal will be met by 2023.

⁴ By resolution passed in 2002, AWBA established on-river firming as the highest priority of use for credits accrued through expenditure of general fund appropriations. A total of 256,174 acre-feet of credits have been reserved pursuant to AWBA's contract with MCWA.

⁵ A.R.S. §45-2491(B)(2) allows for use of withdrawal fees after legislative appropriations for Indian firming have been expended. By utilizing credits stored at GRIIDD and credits accrued from withdrawal fees in the Pinal and Phoenix AMAs in this Ten-Year Plan, 68% of the GRIC and 57% of the future settlement firming goals are estimated to be met in 2023. Existing withdrawal fee credits from Pinal and Phoenix AMAs are used to meet remainder of firming goals for GRIC and future settlements, respectively.

⁶ Based on estimates from Indian Firming Study Commission Report dated January 6, 2006. AWBA is required to firm up to 23,724 AF/year during shortages. If firming goal has been underestimated, additional acre-feet stored using withdrawal fee credits are available in the Pinal and Phoenix AMAs to meet this obligation.

⁷ Pursuant to Third Amended and Restated Agreement for Interstate Banking, additional water could be stored in future but would not be in form of an obligation, but rather mutually agreed upon.

⁸ Credits currently identified for use in Tucson AMA would meet 1.6% of the firming goal.

Ten-Year Plan Components

The following components are recognized to be important in developing the Ten-Year Plan. Inclusion or exclusion of a specific component was based on whether the component's effect could be predicted over the planning period, the magnitude of the effect and whether the component was anticipated to be an issue. Three components are always considered: water availability, funding and storage capacity. Other components specific to this plan include: water management objectives, Indian settlements, interstate banking and long-term storage credit recovery.

1. Water Available to the AWBA

The volume of water available to the AWBA has been decreasing since 2010 when over 200,000 acre-feet were available to the AWBA. By 2012, the AWBA would store just over 130,000 acre-feet. In its 2013 Plan of Operation, the AWBA expects to store slightly over 50,000 acre-feet just 25% of the volume stored in 2010 and only 13% of the volume stored in the AWBA's highest storage year in 2007. The last Ten-Year Plan showed CAP water available to the AWBA decreasing but only to around 66,000 acre-feet in the lowest expected year (i.e. 2016) and increasing to over 150,000 acre-feet in the highest expected year (i.e. 2017) when the Excess Agricultural Pool decreases to 300,000 acre-feet. This Ten-Year Plan projects an even lower low volume in 2023 (i.e. below 40,000 acre-feet) and a lower high volume in 2017 (i.e. just over 110,000 acre-feet). This change in volume is largely due to a more rapid build-up of contract water use by Indian customers.

The new CAWCD 2013-2014 rate schedule reflects a significant increase over previous rate schedules. This increase was caused by higher Navajo Generating Station energy costs and lower natural gas prices, coupled with lower liquidity in the energy surplus market. Because of rate increases, this Ten-Year Plan assumes the volume of water expected to be stored will be lower than under previous rate schedules. While the impact of the increased rates on demand has not been analyzed, however, some speculate that additional water could become available to the AWBA as users storing in the past are affected by price elasticity. If this occurs, because storage in the Tucson AMA is already maximized, the Ten-Year Plan would assume excess volumes will be shared between Pinal and Maricopa County until funds in Pinal are exhausted. After which, any remaining water will be stored in Maricopa.

2. Funding

Funding for water storage that benefits Arizona (intrastate storage) comes from three sources: *ad valorem* taxes, groundwater withdrawal fees and general fund appropriations. There are restrictions on how each funding source can be used. In the past, the AWBA received funding from the Southern Nevada Water Authority for interstate water banking and shortage reparation. For the first time, this Ten-Year

Plan utilizes interest accumulated from *ad valorem* taxes to purchase and store water for M&I firming.

Ad Valorem Tax

Pursuant to A.R.S. §48-3715.03(B), 4¢ *ad valorem* taxes levied and collected by CAWCD that are not deposited in the CAWCD fund, shall be deposited into subaccounts held by the AWBA: one for each of the three counties in which the taxes were collected. CAWCD has not deposited monies collected into these AWBA subaccounts since 2003. The AWBA expended all of the funds that remained in the subaccounts for Pinal and Pima Counties in 2004 and Maricopa County in 2007. CAWCD has however offset AWBA water delivery and storage costs using the 4¢ *ad valorem* tax held in CAWCD accounts. This Ten-Year Plan relies on the continuation of CAWCD offsetting the AWBA's costs. It is important to note that A.R.S. §48-3715.02, which provides CAWCD the authority to levy the *ad valorem* tax for water storage, will be repealed effective January 2, 2017. Therefore, this Ten-Year Plan does not include collection of the *ad-valorem* tax beyond 2016.

Additionally, in May of 2013, the CAWCD Board resolved to replenish a shortfall to its strategic reserve fund by drawing \$45 million from the 4¢ *ad valorem* tax fund for Maricopa County. The \$45 million was part of the roughly \$52 million that was collected pursuant to CAWCD's 4¢ tax resolutions adopted for tax years 2010 through 2012. The monies available in this Ten-Year Plan have been adjusted accordingly.

Finally, this plan assumes interest from *ad valorem* tax monies held by CAWCD (i.e. funds historically set aside for AWBA Administration purposes) for Pima and Pinal Counties are used to store water for these counties once the principal amount is exhausted. Based on the Plan, there will still be Maricopa County *ad valorem* tax monies and interest remaining at the end of the Ten-Year Plan.

Groundwater Withdrawal Fees

Pursuant to A.R.S. §45-611(3), the Director of Water Resources levies and collects a groundwater withdrawal fee for water banking purposes in the three AMAs equal to \$2.50 per acre-foot per year. This Plan assumes \$3.6 million in withdrawal fees is collected annually with \$1.7 million collected in the Phoenix AMA, 1.5 million collected in the Pinal AMA and \$400,000 collected in the Tucson AMA¹. The AWBA can utilize withdrawal fees to firm M&I CAP subcontract supplies, to implement the settlement of water rights claims by Indian communities in Arizona and to meet the water management objectives of the AMAs in which the fees were collected. In addition, withdrawal fees collected in the Pinal AMA can be used to meet the AWBA Southside Replenishment Bank (SSRB) obligation. Upon being distributed or

¹ Withdrawal fees collected varies from year to year. The assumed collections for the Ten-Year Plan are based on an average of collections over the 2009 to 2013 time frame.

extinguished, these credits can only be used for the benefit of the AMA in which the monies were collected.

To this end, credits accrued using withdrawal fees in the Tucson AMA are assumed to be applied to M&I firming in that AMA. The Ten-Year Plan further assumes withdrawal fees credits accrued in the Phoenix and Pinal AMAs, including those accrued at the GRIID GSF, could be applied to Indian firming obligations if the AWBA does not receive a general fund appropriation for this purpose. Finally, this Plan utilizes withdrawal fees to purchase CAP water for delivery to the SSRB.

AWBA General Fund Appropriation

Pursuant to A.R.S. §45-2423.B.10, the AWBA can submit a request for a general fund appropriation each year. While the AWBA may request general fund appropriations during this planning period, receipt of an appropriation cannot be expected. Consequently, the Ten-Year Plan does not include the expenditure of general fund appropriations. Absent future general fund appropriations, any storage needed to meet the AWBA's Indian firming obligation might require the use of withdrawal fees.

Funding for Interstate Banking

Pursuant to earlier interstate water banking agreements, 600,651 acre-feet of credits are already held in the Southern Nevada Water Authority (SNWA) account. SNWA paid nearly \$123 million to date for these credits. Under the newly executed Third Amended and Restated Agreement for Interstate Water Banking, the AWBA no longer has an obligation to accrue future long-term storage credits to be held in the SNWA account. As in the original agreement, all future delivery and storage costs are borne by SNWA and are on a "pay-as-you-go" basis. Pursuant to the new agreement, SNWA will pay \$20,000 per year for continuing administrative services in years when the AWBA does not deliver and store water. These revenues are assumed to offset the AWBA's administrative costs.

Shortage Reparation Funds

Pursuant to the Arizona-Nevada Shortage-Sharing Agreement, Nevada will provide to the AWBA \$8 million in order to assist Arizona in offsetting impacts that may occur during the "Interim Period". The Interim Period begins on December 13, 2007, the date the Secretary of the Interior issued the Record of Decision for the Colorado River Interim Guidelines for Lower Basin Storage and the Coordinated Operation for Lake Powell and Lake Mead, and ends on December 31, 2025. By the end of 2013, the AWBA will have expended approximately \$4.5 million of these funds for purchase and storage of CAP water. While a final plan for the use of the credits accrued using these funds has not yet been adopted by the Authority, expenditure of the remaining \$3.5 million has been included in this Ten-Year Plan. In the Ten-Year Plan, expenditure of these funds has been focused in the Tucson AMA in order to

distribute use of the funds among the three AMAs since funds have already been expended in the Phoenix and Pinal AMAs.

3. Storage Partners and Storage Capacity

The AWBA currently has nine water storage permits for GSFs with a total permitted storage capacity of 421,547 acre-feet per year. Storage at these facilities under this Ten-Year Plan is restricted due to a limited volume of capacity made available to the AWBA because of local priorities on where to store water and storage by other GSF partners. Tucson AMA interests requested that any water available for the Tucson AMA be stored at certain USFs before considering local GSFs.

All of the facility permits associated with the GSFs will expire during this Ten-Year Plan. Any difficulty in obtaining new permits could impact the capacity available to the AWBA. However, because impacts of this nature cannot be predicted, this Ten-Year Plan assumes the permits will be renewed¹. The AWBA has renewed water storage agreements with its GSF partners. The new agreements will expire December 31, 2021. The Ten-Year Plan assumes the agreements will be renewed and that the AWBA will continue to participate with these GSF partners throughout this Ten-Year Plan.

The AWBA currently has nine water storage permits for USFs with a total permitted storage capacity of 561,000 acre-feet per year. Storage capacity available to the AWBA, primarily at CAWCD operated facilities, has decreased over the last few years because of storage by other participants. Storage capacity could continue to decline as additional entities contract with CAWCD and are issued water storage permits by ADWR. However, the actual capacity used by these entities could be limited by the availability of water to those entities.

In addition, four of the USF permits will expire within this Ten-Year Plan. Like the GSF permits, any difficulty in obtaining new permits could impact the capacity available to the AWBA. However, because impacts of this nature cannot be predicted, this Ten-Year Plan assumes the permits will be renewed.

The AWBA's water storage agreement with the Metropolitan Domestic Water Improvement District for storage at the Avra Valley Recharge Project will expire on December 31, 2015. Likewise, the AWBA's Master Water Storage Agreement with CAWCD for storage at its six facilities will expire December 31, 2016. Renewal of these agreements is anticipated therefore storage at these facilities was included for the full Ten-Year planning period.

The AWBA updated its Storage Facility Inventory in March of 2011 and used it to develop this Ten-Year Plan. Since the inventory was updated, no additional permit

¹ The facility permit for the Hohokam Irrigation District expired on October 1, 2012. The District applied for a new permit and can continue to use its existing permit until a new permit is issued or the permit is denied. The Ten-Year Plan assumes the District will secure a new permit.

capacity has been developed that would increase the capacity available to the AWBA.

On April 18, 2013, the CAWCD Board adopted the CAP Recharge Facility Priority policy (see Appendix J) that establishes a clear method for scheduling recharge capacity at CAWCD USFs and that communicates priorities that will be used to resolve conflicts for available capacity that may arise in the scheduling process. In that policy, the AWBA shares priority with the CAGRDR replenishment reserve and the United States, after capacity is met for entities with contractual rights to store at CAP facilities and after the CAGRDR meets its annual replenishment obligation.

Appendix C describes the storage partners, storage permits, and capacity available for use by the AWBA. This plan identifies 155,000 acre-feet of storage capacity available to the AWBA at GSFs and 166,000 acre-feet of capacity available to the AWBA at USFs. Therefore, the Ten-Year Plan has sufficient storage capacity to store the amount of water assumed to be available to the AWBA under CAWCD's policy for distributing Excess CAP water. However, it is possible the location of AWBA storage could be affected in the future.

4. Water Management Objectives

The early activities of the AWBA were focused on achieving the goal of full utilization of Arizona's Colorado River allocation. With the exception of 2005, Arizona has been meeting this goal since 2002. Another primary objective of the AWBA is meeting the numerically defined M&I firming goals. By the end of 2013, the AWBA anticipates having accrued over 1.9 million acre-feet of credits for that purpose. For the Pinal and Phoenix AMAs, the volume stored to date is around 80 to 85% of the numerically defined goals for those AMAs. Progress toward meeting the Tucson AMA goal, however, continues to lag significantly behind with only 57% of the goal achieved by 2013 assuming withdrawal fee credits are used in addition to 4¢ *ad valorem* tax credits.

Even with considerably less water available from CAP, this Ten-Year Plan projects the AWBA will store enough water to meet 93% of the numerically defined goal in the Pinal AMA and 107% of the numerically defined goal in the Phoenix AMA using 4¢ *ad valorem* tax monies alone. If credits accrued using withdrawals fees are included, the AWBA expects to exceed the numerically defined goal for the Pinal AMA as well during the Ten-Year Plan. Except for the 5,621 acre-feet of withdrawal fee credits set aside for meeting the State's obligation to the Federal government under the AWSA, the AWBA has not assigned any withdrawal fee credits to any of its stated purposes to date.

For the Tucson AMA, including withdrawal fees, the AWBA expects to only reach 70% of the numerically defined goal for the Tucson AMA. Because the AWBA is further behind in achieving its goal for the Tucson AMA than the other AMAs, the AWBA directed staff to focus on storing as much water as possible in the Tucson

area. Other water management objectives have also become more important in the Tucson AMA over time. Specifically, Tucson area interests have expressed concerns about where the AWBA is storing water relative to future recovery. To meet this concern, AWBA staff, after consulting with Tucson area interests, developed a strategy to store water at Tucson Water's SAVSARP as a first priority, followed by the Pima Mine Road Recharge Project, followed by the Avra Valley Recharge Project before storing water at the Lower Santa Cruz Recharge Project or any of the GSFs located in the AMA.

5. Participation in Indian Settlements

One objective of the AWBA is assisting with the settlement of water rights claims by Indian communities within Arizona. The State of Arizona has a 100-year firming obligation under the Arizona Water Settlements Act. The AWBA also has statutorily mandated responsibilities for the SSRB.

This Ten-Year Plan includes a component for meeting the State's Indian settlement firming obligation. While the AWBA may request appropriations during this Ten-Year Plan, future appropriations from the Legislature cannot be expected. As shown in Table 8, withdrawal fee credits, already accrued in the Phoenix and Pinal AMAs, could be used to meet this obligation while still maintaining credits for other water management purposes. This includes credits that were previously accrued from water stored at the GRIIDD GSF. The AWBA retains full rights to the credits developed at the GSF until such time the credits are dedicated specifically for meeting the State's Indian firming obligation.

This Ten-Year Plan also includes a component for meeting the initial SSRB obligation of 15,000 acre-feet. The AWBA will have delivered 5,000 acre-feet for this purpose by the end of 2013 and has identified an additional 10,000 acre-feet of deliveries under this plan, at a rate of 1,000 acre-feet each year. Withdrawal fees collected in the Pinal AMA are used to meet this obligation.

6. Interstate Banking

In May of 2013, the AWBA, SNWA and the CRCN signed the Third Amended and Restated Agreement for Interstate Water Banking. To date, 600,651 acre-feet of credits are already held in the SNWA account. SNWA paid nearly \$123 million to date for these credits and their financial obligation has been met. Under the new agreement, the AWBA no longer has an obligation to accrue future long-term storage credits to be held in the SNWA account.

Also under the new agreement, the parties can agree to future accrual of long-term storage credits including authorizing the use of Nevada's unused apportionment as the source water. Existing credits must be recovered by December 31, 2063. Future credits must be recovered within 50 years of the date of storage with the

oldest credits recovered first. The agreement terminates when all credits (i.e. existing and future) have been recovered.

Because water available to AWBA is especially low during this planning period, the Ten-Year Plan assumes no storage for Nevada. If additional water becomes available and Arizona's uses are met, then the AWBA and SNWA can agree to accrue long-term storage credits for Nevada. If unused apportionment from Nevada becomes available, then the AWBA would need to consider available capacity.

7. Shortages and Recovery

This Ten-Year Plan assumes normal water supply conditions on the Colorado River and therefore does not include any shortages. ADWR and CAWCD staff work cooperatively on long-range shortage projections. Model analyses based on Reclamation's assumptions in the Colorado River System Simulation model indicate that by the end of the ten years there is approximately a one-in-four chance (25 percent probability) that shortages to Arizona may occur. Using ADWR's upper basin depletion assumptions in the same model, the probability of shortage is approximately 10-15 percent.

Reductions to CAP would first affect users of Excess CAP water. Within the Excess pool, the Agricultural Settlement Pool has the highest priority, so other excess users, including the AWBA would be cut first.

According to the modeling run conducted by ADWR for the NIA reallocation process¹, for specific classes of water firmed by the AWBA, the earliest recovery event could be in 2020 when modeling predicts a 2% probability of shortage resulting in an Indian firming obligation of about 10,000 acre-feet. This probability increases in 2021 to 7%, to 8% in 2022 and to 10% in 2023 with the volume ranging from 1,000 to 11,000 acre-feet. For on-river impacts, the modeling shows a probability of a shortage of 3% in 2021 through 2023 with expected impacts of around 1,200 acre-feet. For M&I Priority firming, the modeling shows a probability of shortage of 9%, but not until 2033, with volumes around 4,000 acre-feet.

The AWBA stores water for future recovery for the following classes of users: on-river Priority 4 M&I users, certain NIA priority water held by Indian tribes, M&I priority subcontracts, and interstate banking for Nevada.

While the probability of shortage impacts is remote during this plan, the portion of NIA priority water held by Indians that must be firmed to M&I Priority would likely be affected first. On-river Priority 4 M&I users would be a close second. Recovery would not likely be needed to firm CAP M&I supplies because there should be

¹ The assumptions for this modeling run can be found at the following web address:
<http://www.azwater.gov/azdwr/PublicInformationOfficer/documents/2012-10-02FINALNIAPriorityCentralArizonaProjectWaterReallocation.pdf>

enough lower priority CAP water to absorb any shortage during the next ten years. However, absent shortages, the only recovery planned for this Ten-Year Plan is for interstate purposes.

This Ten-Year Plan assumes that SNWA will request ICUA beginning in 2019 pursuant to the Third Amended and Restated Agreement for Interstate Water Banking. This agreement authorizes Nevada to request development of ICUA, as follows: in the initial year, an amount not exceeding 20,000 acre-feet; the second year, an amount not exceeding 30,000 acre-feet and in all subsequent years, an amount not exceeding 40,000 acre-feet. This Plan is not intended to identify the recovery mechanisms for developing ICUA. However, CAWCD, ADWR and the AWBA are currently developing a general recovery plan which would include the development of ICUA. This plan will be in place prior to the first request for ICUA.

Conclusion

The Ten-Year Plan is intended to serve as a guide to assist the AWBA in the development of its Annual Plan of Operation in which the AWBA is required to plan its activities for the following calendar year. As part of the Annual Report, the Ten-Year Plan is reviewed and updated annually. Therefore, it is possible that the Ten-Year Plan may change significantly depending on the goals set by the AWBA and the funding and water supply available to the AWBA. Several conclusions that could be reached given this Ten-Year Plan are:

- 1) Approximately 630,000 acre-feet of credits could be created as a result of this Plan.
- 2) Water availability could be a limiting factor in this planning period and is most limiting in 2016 and 2023.
- 3) Water availability may prove unpredictable for various reasons. If more water becomes available to the AWBA due to increases in costs that impact other CAP customers, the AWBA will be able to store additional water in the Phoenix AMA. If there is less water available, the AWBA can evaluate opportunities for acquiring other sources of water for storage such as reclaimed water.
- 4) Without the continuation of the 4¢ *ad valorem* tax revenues, funding becomes a limiting factor in both Pinal and Pima Counties.
- 5) At the end of the Ten-Year Plan, Maricopa County is projected to have revenues remaining in its 4¢ *ad valorem* tax fund.
- 6) The numerically defined goal for the Phoenix AMA is expected to be attained during this planning period.
- 7) The numerically defined goal for the Pinal AMA is attainable during the planning period if withdrawal fee credits are applied to this objective.
- 8) The numerically defined goal for the Tucson AMA is not attainable during the planning period.

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- 9) Absent future appropriations, withdrawal fees will become the principle source of funding for Indian firming.
- 10) Unused withdrawal fees will be exhausted in the Pinal and Tucson AMAs by 2017; starting in 2018 withdrawal fees will be collected and spent almost immediately.
- 11) The initial Southside Replenishment Bank is fully subscribed by the end of the Ten-Year Plan.
- 12) The region is moving closer to shortage conditions or conditions where recovery could be triggered. If recovery is triggered, then Indian obligations will be impacted first followed closely by On-River obligations.
- 13) Interstate storage using Arizona's entitlement is unlikely during this planning period. There is, however, a possibility SNWA will request ICUA.

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APPENDICES

APPENDIX A			
Colorado River Water Deliveries for Water Banking Purposes for Calendar Year 2012 by Partner and Active Management Area			
Active Management Area	Partner	Quantity of Water (Acre-feet)	
		Intrastate	Interstate
PHOENIX AMA	Tonopah Desert Recharge Project	46,817	0
	Superstition Mountains Recharge Project	2,386	0
	New Magma Irrigation & Drainage District	23,866	0
	Queen Creek Irrigation District	4,957	0
	<i>Intrastate/Interstate AMA Subtotal</i>	78,026	0
	<i>Phoenix AMA Subtotal</i>	78,026	
PINAL AMA	Central Arizona Irrigation & Drainage District	8,246	0
	Hohokam Irrigation & Drainage District	3,670	0
	Maricopa-Stanfield Irrigation & Drainage District	8,670	0
	Southside Replenishment Bank	1,000	0
	<i>Intrastate/Interstate AMA Subtotal</i>	21,586	0
<i>Pinal AMA Subtotal</i>	21,586		
TUCSON AMA	Avera Valley Recharge Project	774	0
	Lower Santa Cruz Recharge Project	11,255	0
	CAVSARP	51	0
	SAVSARP	15,532	0
	Cortaro-Marana Irrigation District	4,097	0
	Kai Farms – Red Rock	1,851	0
	BKW Farms	200	0
	Pima Mine Road	601	0
	<i>Intrastate/Interstate AMA Subtotal</i>	34,361	0
<i>Tucson AMA Subtotal</i>	34,361		
TOTAL INTRASTATE & INTERSTATE DELIVERIES		133,973	0
TOTAL DELIVERIES		133,973	

Appendix B						
CAP Delivery Schedule						
(Acre-Feet)						
Year	Total CAP Deliveries¹	Use By Sector			Banking Pool⁵	
		M&I²	Indian³	Ag⁴	CAGR⁵	AWBA
2014	1,565,000	662,600	419,700	400,000	11,800	70,900
2015	1,565,000	676,200	413,400	400,000	10,800	64,600
2016	1,560,000	695,500	411,100	400,000	7,600	45,800
2017	1,555,000	714,900	408,900	300,000	18,700	112,500
2018	1,550,000	734,300	406,600	300,000	17,000	102,100
2019	1,550,000	753,600	404,300	300,000	13,900	83,200
2020	1,550,000	773,000	402,100	300,000	10,700	64,200
2021	1,550,000	783,100	399,800	300,000	9,600	57,500
2022	1,550,000	793,200	397,500	300,000	8,500	50,800
2023	1,550,000	810,200	395,300	300,000	6,400	38,100

¹ Based on average deliveries and remaining use of SRP exchange water

² Includes M&I use of subcontracts, excess, and federal water leased, exchanged or assigned to M&I users

³ Includes on & off-reservation CAP contract deliveries for Indian uses (including recharge)

⁴ Ag Settlement Pool Water

⁵ Based on a planning assumption that CAWCD's current Access to Excess policy is extended

APPENDIX C STORAGE FACILITIES AVAILABLE TO THE AWBA (as used in the Ten-Year Plan)					
Name of Facility ¹	Facility Permit Expiration	Facility Permitted Capacity (AF)	Capacity Available to AWBA ² (AF)	Year Water Last Stored	Volume of Water Last Stored (AF)
PHOENIX – GSF³					
Queen Creek Irrigation District	Dec-15	28,000	7,000	2012	4,957
New Magma Irrigation & Drainage District	Jul-17	54,000	0	2012	23,866
Subtotal for Phoenix AMA - GSF		82,000	7,000		
PHOENIX – USF					
Agua Fria Recharge Project	May-19	100,000	5,000	2010	2,604
Hieroglyphic Mountains Recharge Project	Dec-21	35,000	5,000	2010	5,002
Tonopah Desert Recharge Project	Sep-25	150,000	100,000	2012	46,817
Superstition Mountains Recharge Project ⁵	Jan-28	56,500	10,000	2012	2,386
Subtotal for Phoenix AMA - USF		341,500	120,000		
PINAL – GSF					
Central Arizona Irrigation & Drainage District	Dec-17	110,000	60,000	2012	8,246
Hohokam Irrigation & Drainage District ⁴	Oct-12	55,000	20,000	2012	3,670
Maricopa-Stanfield Irrigation & Drainage District	Dec-19	120,000	60,000	2012	8,670
Subtotal for Pinal AMA - GSF		285,000	140,000		
TUCSON – GSF					
BKW Farms	Sep-14	14,316	1,000	2012	200
Cortaro-Marana Irrigation District	Nov-13	20,000	5,000	2012	4,097
Kai-Farms – Red Rock	Nov-16	11,231	2,000	2012	1,851
Subtotal for Tucson AMA - GSF		45,547	8,000		
TUCSON – USF					
Avra Valley Recharge Project	Mar-18	11,000	1,000	2012	774
CAVSARP	Dec-28	100,000	0	2012	51
Lower Santa Cruz Recharge Project	Feb-19	50,000	25,000	2012	11,255
Pima Mine Road Recharge Project	Sep-20	30,000	5,000	2012	601
SAVSARP	Jan-28	60,000	15,000	2012	15,532
Subtotal for Tucson AMA - USF		251,000	46,000		
ALL AMAs - GSF		412,547	155,000		
ALL AMAs - USF		592,500	166,000		

¹ As additional facilities are developed, they will be included in future plans.

² This does not reflect the actual "permitted" volume for these facilities; instead for the purposes of this plan, staff relied on average historical storage volumes and potential for future storage. Capacity available to the AWBA at the Avra Valley Recharge Project is based on the operator's estimated annual averages for the Ten-Year Planning period.

³ The AWBA also holds a water storage permit at Tonopah Irrigation District GSF (15,000 AF), however use of the facility was not considered significant in this Ten-Year Plan.

⁴ Permit renewal application pending with ADWR.

⁵ Phase one of the facility is permitted for 25,000 AF per year.

APPENDIX D							
Credits Developed for M&I Firming Utilizing the 4¢ Tax ¹							
(Acre-feet)							
PHOENIX AMA ²	Groundwater Savings			Underground Storage			
	Year	Capacity Available ⁴	Capacity Used	Credits Earned	Capacity Available ⁴	Capacity Used	Credits Earned
	Pre-plan ³			548,321			784,892
	2014	7,000	7,000	6510	120,000	7,854	7,304
	2015	7,000	7,000	6510	120,000	6,515	6,059
	2016	7,000	7,000	6510	120,000	2,520	2,344
	2017	7,000	7,000	6510	120,000	33,012	30,701
	2018	7,000	7,000	6510	120,000	70,337	65,414
	2019	7,000	7,000	6510	120,000	54,703	50,873
	2020	7,000	7,000	6510	120,000	38,960	36,233
	2021	7,000	7,000	6510	120,000	33,652	31,296
	2022	7,000	7,000	6510	120,000	28,324	26,341
	2023	7,000	7,000	6510	120,000	17,878	16,626
	Total			613,421			1,058,084
PINAL AMA ²	Groundwater Savings			Underground Storage			
	Year	Capacity Available ⁴	Capacity Used	Credits Earned	Capacity Available ⁴	Capacity Used	Credits Earned
	Pre-plan ³			196,850			0
	2014	139,000	14,229	13,233	-	-	0
	2015	139,000	5,933	5,517	-	-	0
	2016	139,000	5,800	5,394	-	-	0
	2017	139,000	3,813	3,546	-	-	0
	2018	139,000	-	-	-	-	0
	2019	139,000	-	-	-	-	0
	2020	139,000	-	-	-	-	0
	2021	139,000	-	-	-	-	0
	2022	139,000	-	-	-	-	0
	2023	139,000	-	-	-	-	0
	Total			224,540			-
TUCSON AMA ²	Groundwater Savings			Underground Storage			
	Year	Capacity Available ⁴	Capacity Used	Credits Earned	Capacity Available ⁴	Capacity Used	Credits Earned
	Pre-plan ³			14,841			379,966
	2014	8,000	-	0	37,763	26,713	24,843
	2015	8,000	-	0	40,861	26,661	24,795
	2016	8,000	-	0	41,076	17,476	16,253
	2017	8,000	-	0	46,000	32,410	30,141
	2018	8,000	-	0	46,000	-	0
	2019	8,000	-	0	46,000	-	0
	2020	8,000	-	0	46,000	-	0
	2021	8,000	-	0	46,000	-	0
	2022	8,000	-	0	46,000	-	0
	2023	8,000	-	0	46,000	-	0
	Total			14,841			475,997

¹ Expenditure of 4¢ ad valorem tax revenues given highest priority in Tucson and Pinal AMAs. In Phoenix AMA, 85% of water available stored using 4¢ ad valorem tax revenues in each year of Ten-Year Plan.

² M&I firming targets are Phoenix AMA - 1.566 MAF, Pinal AMA – 243,000 AF, and Tucson AMA – 864,000 AF.

³ Cumulative totals for 1997-2012; 2013 credits estimated based on projected deliveries.

⁴ Capacity available based on capacity remaining at facilities after all higher priority demands have been met.

APPENDIX E							
Credits Developed for Meeting AMA Water Management Goals Utilizing Withdrawal Fees ¹							
(Acre-feet)							
PHOENIX AMA ²	Groundwater Savings			Underground Storage			
	Year	Capacity Available ⁴	Capacity Used	Credits Earned	Capacity Available ⁴	Capacity Used	Credits Earned
	Pre-plan ³			163,572			140,537
	2014	0	-	0	112,146	2,621	2,438
	2015	0	-	0	113,485	2,385	2,218
	2016	0	-	0	117,480	1,680	1,562
	2017	0	-	0	86,988	7,061	6,567
	2018	0	-	0	49,663	13,648	12,692
	2019	0	-	0	65,297	10,889	10,126
	2020	0	-	0	81,040	8,111	7,543
	2021	0	-	0	86,348	7,174	6,672
	2022	0	-	0	91,676	6,234	5,797
	2023	0	-	0	102,122	4,390	4,083
Total			163,572			200,236	
PINAL AMA ²	Groundwater Savings			Underground Storage			
	Year	Capacity Available ⁴	Capacity Used	Credits Earned ⁵	Capacity Available ⁴	Capacity Used	Credits Earned
	Pre-plan ³			403,729			0
	2014	125,771	4,246	3,019	-	-	0
	2015	134,067	10,967	9,270	-	-	0
	2016	134,200	6,400	5,022	-	-	0
	2017	136,187	21,497	19,062	-	-	0
	2018	140,000	9,220	7,645	-	-	0
	2019	140,000	8,786	7,241	-	-	0
	2020	140,000	8,376	6,860	-	-	0
	2021	140,000	7,988	6,499	-	-	0
	2022	140,000	7,621	6,158	-	-	0
	2023	140,000	7,273	5,834	-	-	0
Total		92,376	480,339			-	
TUCSON AMA ²	Groundwater Savings			Underground Storage			
	Year	Capacity Available ⁴	Capacity Used	Credits Earned	Capacity Available ⁴	Capacity Used	Credits Earned
	Pre-plan ³			7,166			93,937
	2014	8,000	-	0	11,050	-	-
	2015	8,000	-	0	14,200	-	-
	2016	8,000	-	0	23,600	-	-
	2017	8,000	-	0	13,590	7,707	7,168
	2018	8,000	-	0	46,000	1,895	1,762
	2019	8,000	-	0	46,000	1,822	1,695
	2020	8,000	-	0	46,000	1,753	1,630
	2021	8,000	-	0	46,000	1,686	1,568
	2022	8,000	-	0	46,000	1,621	1,508
	2023	8,000	-	0	46,000	1,559	1,450
Total			7,166			110,717	

¹ Expenditure of withdrawal fees given second highest priority in Tucson and Pinal AMAs. In Phoenix AMA, 15% of water available stored using withdrawal fees in each year of Ten-Year Plan.

² M&I firming targets are Phoenix AMA - 1.566 MAF, Pinal AMA - 243,000 AF, and Tucson AMA - 864,000 AF.

³ Cumulative totals for 1997-2012; 2013 credits estimated based on projected deliveries.

⁴ Capacity available based on capacity remaining at facilities after all higher priority demands have been met.

⁵ No credits are received for water stored at the SSRB.

APPENDIX F							
Credits Developed for Annual General Fund Appropriations ^{1,2}							
(Acre-feet)							
PHOENIX AMA	Groundwater Savings			Underground Storage			
	Year	Capacity Available ⁴	Capacity Used	Credits Earned	Capacity Available ⁴	Capacity Used	Credits Earned
	Pre-plan ³			26,041			16,275
	2014	0	-	0	109,525	-	0
	2015	0	-	0	111,100	-	0
	2016	0	-	0	115,800	-	0
	2017	0	-	0	79,927	-	0
	2018	0	-	0	36,015	-	0
	2019	0	-	0	54,409	-	0
	2020	0	-	0	72,929	-	0
	2021	0	-	0	79,174	-	0
	2022	0	-	0	85,442	-	0
	2023	0	-	0	97,732	-	0
Total			26,041			16,275	
PINAL AMA	Groundwater Savings			Underground Storage			
	Year	Capacity Available ⁴	Capacity Used	Credits Earned	Capacity Available ⁴	Capacity Used	Credits Earned
	Pre-plan ³			306,968			0
	2014	121,525	-	0	-	-	0
	2015	123,100	-	0	-	-	0
	2016	127,800	-	0	-	-	0
	2017	114,690	-	0	-	-	0
	2018	130,780	-	0	-	-	0
	2019	131,214	-	0	-	-	0
	2020	131,624	-	0	-	-	0
	2021	132,012	-	0	-	-	0
	2022	132,379	-	0	-	-	0
	2023	132,727	-	0	-	-	0
Total		-	306,968			-	
TUCSON AMA	Groundwater Savings			Underground Storage			
	Year	Capacity Available ⁴	Capacity Used	Credits Earned	Capacity Available ⁴	Capacity Used	Credits Earned
	Pre-plan ³			2,846			51,700
	2014	8,000	-	0	11,050	-	0
	2015	8,000	-	0	14,200	-	0
	2016	8,000	-	0	23,600	-	0
	2017	8,000	-	0	5,883	-	0
	2018	8,000	-	0	44,105	-	0
	2019	8,000	-	0	44,178	-	0
	2020	8,000	-	0	44,247	-	0
	2021	8,000	-	0	44,314	-	0
	2022	8,000	-	0	44,379	-	0
	2023	8,000	-	0	44,441	-	0
Total		-	2,846			51,700	

¹ This Ten-Year Plan does not include a component for General Fund appropriations.

² The on-river M&I firming target is 420,000 acre-feet.

³ Cumulative totals for 1997 through 2013 are actuals.

⁴ Capacity available based on capacity remaining at facilitates after all higher priority demands have been met.

APPENDIX G							
Credits Developed for Utilizing Funds Dedicated for Shortage Reparations ¹							
(Acre-feet)							
PHOENIX AMA	Groundwater Savings			Underground Storage			
	Year	Capacity Available ³	Capacity Used	Credits Earned	Capacity Available ³	Capacity Used	Credits Earned
	Pre-plan ²			4,590			16,051
	2014	0	-	0	112,146	-	0
	2015	0	-	0	113,485	-	0
	2016	0	-	0	117,480	-	0
	2017	0	-	0	86,988	-	0
	2018	0	-	0	49,663	-	0
	2019	0	-	0	65,297	-	0
	2020	0	-	0	81,040	-	0
	2021	0	-	0	86,348	-	0
	2022	0	-	0	91,676	-	0
	2023	0	-	0	102,122	-	0
	Total			4,590			16,051
PINAL AMA	Groundwater Savings			Underground Storage			
	Year	Capacity Available ³	Capacity Used	Credits Earned	Capacity Available ³	Capacity Used	Credits Earned
	Pre-plan ²			60,782			0
	2014	124,771	-	0	-	-	0
	2015	133,067	-	0	-	-	0
	2016	133,200	-	0	-	-	0
	2017	135,187	-	0	-	-	0
	2018	139,000	-	0	-	-	0
	2019	139,000	-	0	-	-	0
	2020	139,000	-	0	-	-	0
	2021	139,000	-	0	-	-	0
	2022	139,000	-	0	-	-	0
	2023	139,000	-	0	-	-	0
	Total			60,782			-
TUCSON AMA	Groundwater Savings			Underground Storage			
	Year	Capacity Available ³	Capacity Used	Credits Earned	Capacity Available ³	Capacity Used	Credits Earned
	Pre-plan ²						9,882
	2014	8,000	-	0	46,000	8,237	7,661
	2015	8,000	-	0	46,000	5,139	4,779
	2016	8,000	-	0	46,000	4,924	4,579
	2017	8,000	-	0	46,000	-	-
	2018	8,000	-	0	46,000	-	-
	2019	8,000	-	0	46,000	-	-
	2020	8,000	-	0	46,000	-	-
	2021	8,000	-	0	46,000	-	-
	2022	8,000	-	0	46,000	-	-
	2023	8,000	-	0	46,000	-	-
	Total			-			26,902

¹ \$8 million received from Nevada pursuant to the Arizona-Nevada Shortage-Sharing Agreement to assist Arizona in offsetting the impacts of shortage impacts during the Interim Period.

² Cumulative totals for 1997-2012; 2013 credits estimated based on projected deliveries.

³ Capacity available based on capacity remaining at facilities after all higher priority demands have been met.

APPENDIX H							
Credits Developed for Utilizing Indian Settlement Appropriations ¹							
(Acre-feet)							
PHOENIX AMA	Groundwater Savings			Underground Storage			
	Year	Capacity Available ⁴	Capacity Used	Credits Earned	Capacity Available ⁴	Capacity Used	Credits Earned
	Pre-plan ³			0			0
	2014	0	-	0	109,525	-	0
	2015	0	-	0	111,100	-	0
	2016	0	-	0	115,800	-	0
	2017	0	-	0	79,927	-	0
	2018	0	-	0	36,015	-	0
	2019	0	-	0	54,409	-	0
	2020	0	-	0	72,929	-	0
	2021	0	-	0	79,174	-	0
	2022	0	-	0	85,442	-	0
	2023	0	-	0	97,732	-	0
Total			-			-	
PINALAMA	Groundwater Savings			Underground Storage			
	Year	Capacity Available ⁴	Capacity Used	Credits Earned	Capacity Available ⁴	Capacity Used	Credits Earned
	Pre-plan ³			0			0
	2014	121,525	-	0	-	-	0
	2015	123,100	-	0	-	-	0
	2016	127,800	-	0	-	-	0
	2017	114,690	-	0	-	-	0
	2018	130,780	-	0	-	-	0
	2019	131,214	-	0	-	-	0
	2020	131,624	-	0	-	-	0
	2021	132,012	-	0	-	-	0
	2022	132,379	-	0	-	-	0
	2023	132,727	-	0	-	-	0
Total			-			-	
TUCSON AMA	Groundwater Savings			Underground Storage			
	Year	Capacity Available ⁴	Capacity Used	Credits Earned	Capacity Available ⁴	Capacity Used	Credits Earned
	Pre-plan ³			0			28,481
	2014	8,000	-	0	11,050	-	0
	2015	8,000	-	0	14,200	-	0
	2016	8,000	-	0	23,600	-	0
	2017	8,000	-	0	5,883	-	0
	2018	8,000	-	0	44,105	-	0
	2019	8,000	-	0	44,178	-	0
	2020	8,000	-	0	44,247	-	0
	2021	8,000	-	0	44,314	-	0
	2022	8,000	-	0	44,379	-	0
	2023	8,000	-	0	44,441	-	0
Total			-			28,481	

¹ The State Indian firming target is estimated at 550,000 acre-feet.
² Credits accrued through the expenditure of \$3 million for assisting Federal government in meeting its firming obligation under Section 306 of the Arizona Water Settlements Act.

APPENDIX I							
Potential Credits Developed for Interstate Water Banking							
(Acre-feet)							
Year	Available CAP Supplies ¹	Available AWBA Capacity ²	Interstate Deliveries ³	Interstate Credits ⁴	ICUA ⁵	Remaining Credits ⁶	Supply Available ⁷
Pre-plan ⁸						600,651	
2014	-	250,100	-	-	-	600,651	-
2015	-	256,400	-	-	-	600,651	-
2016	-	275,200	-	-	-	600,651	-
2017	-	208,500	-	-	-	600,651	-
2018	-	218,900	-	-	-	600,651	-
2019	-	237,800	-	-	20,000	580,651	-
2020	-	256,800	-	-	30,000	550,651	-
2021	-	263,500	-	-	40,000	510,651	-
2022	-	270,200	-	-	40,000	470,651	-
2023	-	282,900	-	-	40,000	430,651	-
Total			-	-	170,000		

¹ Water available for Interstate Banking is calculated by subtracting the water delivered and stored by the AWBA for intrastate water banking from the total water supply available for the AWBA (see Appendix B).

² Reflects unused capacity available to AWBA at USFs and GSFs in the Phoenix, Pinal, and Tucson AMAs. Additional capacity may be available at individual facilities based on utilization by individual water storage permit holders.

³ Projected deliveries are based on the Third Amended and Restate Agreement for Interstate Water Banking dated May 20, 2013 and an annual limitation of 200,000 AF/YR.

⁴ Calculation: Interstate deliveries multiplied by 93%.

⁵ Pursuant to the Recovery Agreement among AWBA, CAWCD, SNWA, and CRCN executed June 9, 2010, recovery is anticipated to begin on or after 2018. Ten-Year Plan assumes maximum allowable annual recovery as described in Third Amended and Restated Agreement for Interstate Water Banking executed May 20, 2013.

⁶ Calculation: credits available minus assumed ICUA during this Ten-Year Plan.

⁷ Calculation: Available CAP Supplies minus Interstate Deliveries.

⁸ Cumulative totals for 2002-2012; 2013 credits estimated based on projected deliveries.

APPENDIX J



BOARD POLICY

Approved by CAWCD Board 5/2/13

CAWCD Underground Storage Facility Capacity Priority Policy

CAWCD currently owns and operates six underground storage facilities (USFs) with a total annual operational capacity of approximately 300,000 acre-feet. Requests by various entities for approval of water storage agreements at CAWCD underground storage facilities (USFs) continue to accumulate. Entities currently ordering CAP water for delivery and recharge at CAWCD USFs include the CAGRD, AWBA, municipal and private water providers, industrial users, water investment firms and Indian tribes. Water storage agreements do not guarantee water delivery or storage capacity. Although CAWCD has historically met nearly all customer requests for underground storage, the lack of a formal policy for prioritization of storage capacity has led to concerns about competing demands and the potential for insufficient storage at one or more of the USF sites.

CAWCD has statutory obligations to support the efforts of the Central Arizona Groundwater Replenishment District (CAGRD) and the Arizona Water Banking Authority (AWBA) to store and replenish water for the public benefit. CAWCD also has entered into contractual agreements with specific partners at different recharge locations and has made commitments to store water for system reliability purposes. CAWCD also desires to support the water management objectives of its CAP subcontractors. This policy provides priorities and guidelines to support these objectives. This policy does not prioritize access to CAP water, it relates only to prioritization of capacity in CAWCD USFs.

Policy Objective:

The objective of this policy is to convey a clear method for scheduling recharge capacity at CAWCD USFs. This policy describes scheduling practices already in place and communicates priorities that will be used to resolve conflicts for available capacity that may arise in the scheduling process. This policy is applicable to all entities who desire to store water at CAWCD USFs.

Policy Guidelines:

The following guidelines describe a methodology for scheduling storage capacity at CAWCD USFs.

Step 1: By October 1, contractors submit requests to CAP for storage capacity in a CAP USF, along with their request for CAP water deliveries.

Step 2: Before considering capacity in CAP USFs, CAWCD compiles all requests for water deliveries to determine if the projected available CAP water supplies will be sufficient to satisfy all requests.

Step 3: If requests for water deliveries exceed the projected available CAP water supplies, CAWCD makes adjustments to requested water delivery schedules in compliance with existing water scheduling guidelines and policies (e.g., Access to Excess Policy).

Step 4: CAWCD makes adjustments to CAP USF storage capacity requests based on the adjustments to water delivery schedules from Step 3.

Step 5: CAWCD compiles all requests for CAP USF storage capacity (with any adjustments as provided in Step 4) to determine if there will be sufficient storage capacity available to satisfy all requests.

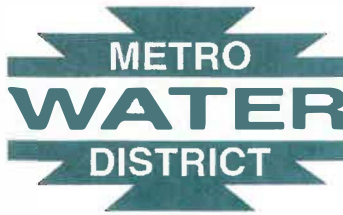
Step 6: If there is not sufficient storage capacity at one or more CAP USFs to satisfy all requests from Step 5, CAWCD contacts requesters individually to determine their willingness to reduce their request or "relocate" some or all of their requested capacity to a different facility.

Step 7: If voluntary relocations/reductions from Step 6 are not sufficient, CAWCD convenes a meeting of all affected requesters to provide a forum for the requesters to come to agreement on the best way to share the storage capacity.

Step 8: If an agreement on sharing the storage capacity cannot be reached in Step 7, CAWCD uses the following priorities to establish the final storage schedules for CAP USFs:

1. Water storage requests for entities with contractual rights to CAP storage facilities (up to the volume limit of the contractual right). This includes ownership partners and any reliability agreements that CAP has entered into for specific facilities.
2. Water storage requests for CAGRDR replenishment obligations.
3. Water storage requests for entities with statutory firming obligations (with co-equal priority) including:
 - a. AWBA
 - b. CAGRDR Replenishment Reserve
 - c. United States (Indian Firming)
4. Individual CAP long-term contract entitlements – priority will be given to entities storing within the AMA where their service area is located.
5. Individuals storing water under a CAP excess contract.

Step 9: CAWCD notifies all contractors of the final CAP USF storage schedules.



June 17, 2013

Ms. Virginia O'Connell, Manager
Arizona Water Banking Authority
3550 North Central Avenue, Second Floor
Phoenix, Arizona 85012

Re: Draft AWBA Annual Report

Dear Ms. O'Connell:

The Metropolitan Domestic Water Improvement District (District) appreciates the continued support given by the Arizona Water Banking Authority (AWBA) to develop plans for achieving the M&I firming water goals in the Active Management Areas (AMAs). AWBA acknowledges in its draft annual report on Page 34 that reaching the M&I firming water goal within the Tucson AMA is NOT attainable during the 10 Year planning period. AWBA's statement concerns the District by that the annual report does not address how AWBA will achieve the M&I firming goal for the TAMA. Secondly, the plan has no identified use for the projected unspent 4 cent ad valorem tax (pages 28 and 34).

The District supports the use of the Shortage Reparation monies in the TAMA (page 29).

Lastly, the District thanks AWBA for supporting local TAMA priorities to firm M&I CAP water supplies only at USFs with recovery capacity (Page 30). The District is investing in developing a recovery system for its CAP water stored at Avra Valley Recharge Project (AVRP). On April 8, 2013, the District's Board of Directors' awarded a contract to HDR Engineering to complete a recovery well and pipeline routing study. The District's FY13/14 budget includes funds for completing the second half of the routing study and testing of potential recovery wells. We support AWBA's 10 Year Plan to continue M&I firming storage at AVRP.

Thank you for this opportunity to comment on the draft report.

Sincerely,

A handwritten signature in black ink that reads "Michael W. Block". The signature is written in a cursive style with a large, looping initial "M".

Michael W. Block
Water Resources Manager

MWB/mwb

I was hoping that, at the next meeting of the Water Bank, we could, should some of you share my concerns, discuss a number of issues I believe we need to examine the changing role of the Water Banking Authority and to better prepare it for the future.

The questions have been grouped into four categories: (1) quantification and prioritization of existing goals and objectives, (2) aligning existing roles, priorities and objectives between CAP, ADWR and CAWCD (3) funding security and (4) exploring existing and new roles for the AWBA.

Quantification and Prioritization of Existing Goals and Objectives:

- New data and assumptions regarding shortages could make some of the Bank's prior calculations suspect. Should we re-examine our numbers based on the new data?
- One of the Bank's objectives is to further the water management goals as outlined in the Groundwater Management Act. What possible actions are available to the bank to accomplish this objective?
- We face a dwindling source of revenues and supplies, leaving us potentially with nothing but increasing obligations. Should we examine the ability to assign priorities to these obligations?
- In our search for means and methods of meeting our obligations we (the Bank) examined the possibility of extending our "reach" in obtaining new water resources. Should we re-examine our efforts to look outside our current single source supply?

Funding Security:

- In 2006, the legislature appropriated \$13.5 million in recognition of the cost in meeting Indian Firming obligations, but between 2008 and 2009, \$12.4 million of the funds were taken from the Bank and a request for a new appropriation has been discouraged. Should we hear from the Governor's Water policy aide regarding a method to at least start the process to request an appropriation?
- Our current major funding source, the CAWCD 4¢ tax, is clearly vulnerable to "outside" pressures. Can we responsibly continue as the recipient of an annual beneficial bequest from CAWCD without attempting to formalize those funds? Shouldn't we start now to attempt to firm that revenue source through negotiations with the CAWCD Board?
- Complete loss of the 4¢ Tax, an action easily envisioned, would have a significant negative effect on the Bank's obligation to firm M&I supplies. Should the Bank examine different strategies which would justify and protect the 4¢ tax levy, including identifying and formalizing the Bank's role?

Aligning Existing Roles, Priorities and Objectives between CAP, ADWR and CAWCD:

- In the recent past, we (the Bank) caused a report to be generated regarding our obligations or responsibilities. Our single source supplier, CAWCD, has decidedly different obligations and priorities which might help or hinder the Bank in meeting its obligations. Should we examine and resolve, where possible, these differences before actual shortages occur?
- What discretion does the statute grant the Bank in the performance of its duties? Do we, for example, merely assign credits as directed by CAWCD, as some suggest, or does the Bank have statutory authority and discretion that we can use? Do funding source restrictions determine that discretion?

Exploring Existing and New Roles for the AWBA:

- Amidst all of these issues and their possible effects on our ability to fulfill our obligations, should we revisit the role of the Water Banking Authority to determine our relevance, our need for defined funding and resources, and our mission?
- The Bank's role external to the CAWCD service area has been limited to assistance to the River Cities and Agreements with California and Nevada. As the State's Water Banking Authority, what role can or should we play in assisting rural communities throughout the State?

June is the Month for the Ten-Year Plan. Seems like a good time to discuss and perhaps include some of these issues along with a plan to pursue them.

V. Fiscal Year 2014 Administrative Budget

NOTES:

Call on **Virginia O'Connell** to explain the budget process and outline the numbers.

ACTION:

Move adoption of the Arizona Water Banking Authority budget for Fiscal Year 2014 as presented with any minor or technical changes.

ARIZONA WATER BANKING AUTHORITY

FY 2013 ADMINISTRATIVE BUDGET

\$598,411 \$514,671

STAFFING

	Total FTE	Cost	Actual Cost
Department of Water Resources Cost of Services		\$475,386	\$ 415,866
Personnel Services	3.0	\$223,838	\$ 203,537
Water Bank Manager			
Water Bank Technical Administrator			
Attorney			
Accountant			
Employee Related Expenditures (at 40% of Personnel Services)		\$89,535	\$70,250
Indirect Cost (at 51.7% of Personnel Service & ERE)		\$162,014	\$142,079
Central Arizona Project Cost of Services		\$21,000	\$21,000
Personnel Services & ERE (pursuant to IGA)		\$21,000	\$21,000
Subtotal Staffing		\$496,386	\$436,866

OTHER COSTS

Professional & Outside Services (includes Alternate Contribution Rate of 8.64%)		\$90,000	\$72,005
Travel		\$4,500	\$1,330
Instate Travel		\$3,500	\$1,330
Out of State Travel		\$1,000	
Operating Expenses		\$2,425	\$1,318
Standard per employee	3.0	\$500	\$1,500
Miscellaneous		\$925	
Equipment		\$5,100	\$3,152
Subtotal Other Costs		\$102,025	\$77,805

ARIZONA WATER BANKING AUTHORITY

Sheet 2014-1

FY 2014 ADMINISTRATIVE BUDGET

\$488,988

STAFFING

	Total FTE	Cost
Department of Water Resources Cost of Services		\$441,538
Personnel Services	2.5	\$202,125
Water Bank Manager	1	
Water Bank Technical Administrator	1	
Attorney	0.5	
Employee Related Expenditures (at 44% of Personnel Services)		\$88,935
Indirect Cost (at 51.7% of Personnel Service & ERE)		\$150,478
Central Arizona Project Cost of Services		\$21,000
Personnel Services & ERE (pursuant to IGA)		\$21,000
Subtotal Staffing		\$462,538

OTHER COSTS

Professional & Outside Services (includes Alternate Contribution Rate of 9.2%)		\$20,000
Travel		\$3,625
Instate Travel		\$2,625
Out of State Travel		\$1,000
Operating Expenses		\$2,825
Standard per employee	3.0	\$500
Miscellaneous		\$1,325
Equipment		\$0
Subtotal Other Costs		\$26,450

TRAVEL

	Meetings	\$/Meeting	Cost
INSTATE TRAVEL			
Authority Members			
Sandra Fabritz-Whitney	5	\$0	\$0
Maureen George	5	\$0	\$0
Cliff Neal	5	\$0	\$0
Jim Hartdegen	5	\$0	\$0
John Mawhinney	5	\$125	\$625
Subtotal			\$625
Authority Staff			
Manager	5	\$0	\$0
	2	\$600	\$1,200
Technical Administrator	5	\$0	\$0
	1	\$400	\$400
Other Support	1	\$400	\$400
Subtotal			\$2,000
Motor Pool			\$0
Instate Total			\$2,625
	Meetings	\$/Meeting	Cost
OUT OF STATE TRAVEL			
Authority Members	No out of state travel is anticipated for Authority Members		
Authority Staff			
Manager	1	\$1,000	\$1,000
Technical Administrator	0		\$0
Other Support	0		\$0
Total Out of State			\$1,000
Total Travel			\$3,625

OPERATING EXPENSES

Miscellaneous	Cost
Web Domain	\$125
Telecomm	\$600
Other	\$600
Permits	
Total Operating Expenses	\$1,325

EQUIPMENT

	Units	Unit Cost	Cost
No anticipated equipment purchase	1	\$0	\$0
Total Equipment			\$0

VI. Call to the Public

Future Meeting Dates:

Wednesday, September 18, 2013

Wednesday, December 19, 2013