

DRAFT

ADD WATER

PRE-LAUNCH FUNDING MECHANISMS

As you know our group's approach to developing pre-launch funding mechanisms is to first brainstorm and explore how different funding mechanisms would work, and later review merits, pros, cons, political considerations and ultimately rank the various alternatives. With that approach in mind, attached are several additional potential funding mechanisms.

1. Utilize a Portion of Ak Chin Fund Money (*current fund balance: \$7.5M*)

The Ak Chin Fund purpose per Arizona State Statute is:

ARS 48-3715.01 Fund for acquiring and conserving supplemental water

In order to carry out the purposes and provisions of section 7 of Public Law 98-530, the district may establish, administer, and make a contribution in the amount of one million dollars to a separate fund, which shall consist of any monies received from the United States under section 7 of Public Law 98-530 and monies contributed to the fund by the district pursuant to this section. Monies from this fund are to be expended by the district at the direction of the board for the voluntary acquisition or conservation of water for use in central Arizona to supplement project water supplies in years when water supplies from the central Arizona project are insufficient to meet the water delivery schedule of non-Indian municipal and industrial users of project water supplies. Supplemental water acquired or conserved pursuant to this section shall be obtained exclusively from water users in this state holding decreed or contract rights to the waters of the mainstream of the Colorado River as of September 30, 1968.

If Ak Chin Funds are used to acquire on-river (P-3 or higher priority) supplies for M&I firming (as required by statute) through the ADD Water program, then a portion of the funds should be used as part of the pre-launch funding. The pre-launch period being where the supplies are actually developed and secured.

Alternatively, Ak Chin Funds could be loaned to ADD Water and repaid with interest, with no harm to M&I subcontractor, because this is a separate fund from the CAP General Fund. Ultimately, this fund will be used for M&I shortage purposes. The first M&I shortage is anticipated no earlier than 2026, even using worst case scenario assumptions.

2. Just Water Contribution

Just Water is anticipated to be 50,000 acre-feet/year of water for Arizona entities outside the three-county area. This is relative to 300,000 acre-feet per year for the ADD Water program. Thus, for example, if \$50 million in pre-launch funds were needed, then Just Water's contribution should be \$7.1 million ($50\text{KAF}/350\text{KAF} \times \$50\text{M}=\$7.1\text{M}$). Just Water's contribution could come from many sources.

3. Contribution or Loan from Entities with a Three-County Exception

The Summary of Emerging Consensus is that with limited exceptions, ADD Water may be used only within the CAP service area. Therefore, it may be appropriate that entities receiving an exception be required to:

1. Provide a pre-launch contribution (e.g., \$1m)
2. and/or provide a pre-launch loan (e.g., 5-year \$2m loan)
3. or provide a pre-launch interest free loan

Reference page 6 of 17, section 4, 4A, 4B, 4C, and 4D in the Summary of Emerging Consensus for Project ADD Water, which reads as follows:

"For all of these reasons, the emerging consensus is that, with limited exceptions, ADD water may be used only within the CAP service area. The limited exceptions under which ADD water may be used outside the CAP service area will be defined by contract or statute and must meet the following conditions: [Policy Paper #11, summary of emerging background paragraph.]

- A. If the ADD water contractor is a municipal provider⁶: [Policy Paper #11, summary of emerging consensus 1.]
 - a. 100% of the municipal provider's service area⁷ was located within the CAP service area as of January 1, 2009;
 - b. The area the municipal provider proposes to serve with ADD water that is outside the CAP service area is contiguous to the CAP service area and the municipal provider's service area located within the CAP service area and does not exceed 10% of the municipal provider's service area that is within the CAP service area; and
 - c. The municipal provider will take delivery of the ADD water within the CAP service area.
- B. If the ADD water contractor is not a municipal provider: [Policy Paper #11, summary of emerging consensus 2.]
 - a. And the ADD water contractor is an electrical energy service provider that will use the ADD water for electrical generation:
 - i. As of January 1, 2009, one or more partners of the electrical energy service provider served Arizona customers within the CAP service area;
 - ii. The electrical energy that will be generated from the use of ADD water will be used in whole or in part within the CAP service area; and
 - iii. The ADD water contractor will take delivery of the ADD water within Arizona from the CAP canal or other ADD water infrastructure.
 - b. And the ADD water contractor is a mining company that will use the ADD water for mineral extraction and metallurgical processing:
 - i. The ore body is located wholly or partially within the CAP service area;
 - ii. The use of ADD water will be in lieu of groundwater that could otherwise be pumped by the mining company within the CAP service area; and
 - iii. The ADD water contractor will take delivery of the ADD water within the CAP service area.
- C. Any other proposed use of ADD water outside the CAP service area will be considered on a case-by-case basis and must be consistent with the following principles: [Policy Paper #11, summary of emerging consensus 3.]

- a. The proposed use of the ADD water will significantly contribute to the economy of the CAP service area or the operation of the CAP Project; and
 - b. The ADD water contractor will take delivery of the ADD water within the CAP service area.
- D. ADD water used outside of the CAP service area will be subject to the same financial requirements, rates and charges as ADD water used inside the CAP service area plus an additional fee to the extent the CAP project works are used. Revenues from the additional fee will be used for CAP Project purposes as determined by the Board. [Policy Paper #11, summary of emerging consensus 4.]"

4. Indian Firming Funding

If Indian Firming, by the state and federal government, is accomplished with ADD Water, then that same funding source should also contribute proportionally to pre-launch funding.

5. Interstate Banking Funding

Interstate Banking for Nevada is falling about 600,000 acre-feet short of the contractually required 1,250,000 acre-feet. If the shortfall in Nevada firming is accomplished through the ADD Water program, then a proportionate share of Nevada funds should be used for pre-launch funding.

As background, the Nevada agreement for interstate banking involves an AWBA obligation to ensure that long-term storage credits in a gross amount of 1,250,000 acre-feet are credited to the SNWA Interstate account. SNWA is required to make payments totaling \$230 million into an operating account to pay for water delivery and storage costs and \$100 million into a resource account for additional water supplies, if needed. The resource account funds are non-refundable to SNWA and are to ensure that Arizona could acquire additional water resources if conditions warranted. Loans are permitted and have occurred from the resource account to the operating account. The resource account has also incurred some sweeps of funds from the Arizona State legislature. When the operating account loans are repaid with interest, the resource account fund balance is anticipated to approach \$100 million.

6. CAP Loan to ADD Water Program

A CAP loan to the ADD Water program could be paid back to the General Fund with interest, thus making the existing customers whole and unharmed. This concept could be expanded so the existing customers actual gain. Instead of paying the loan back with interest to cover lost interest income from the State Treasurer, the repayment could include an additional 5% per year component that could be used for example to contribute towards a General Fund rate stabilization fund. This option would only be used if funds were available in excess of General Fund reserve targets.

7. NIA Water Rate Adder

As CAP transitions to an ADD Water program the cost of water will increase significantly. To start the transition, it may be appropriate to include an adder to the transfer cost per acre-foot for NIA water. The Secretary of the Interior for the United States is anticipated to allocate out to various entities a portion of the 96,295 acre-feet of NIA water during the next five years. The NIA water transfer price will be set by the CAP Board and is paid solely by the entities receiving NIA water allocations, (the existing M&I subcontractors would bear no cost). If for example, a \$200/AF adder is included, then it could bring the projected transfer cost to about \$1,133/AF and provide an additional \$9.6 million ($48,000 \text{ AF} \times \$200/\text{AF} = \$9.6\text{M}$). These funds could contribute to pre-launch funding.