



MEETING MINUTES

May 11, 2017

1. Call to order.

The meeting was called to order at 9:01 a.m. Members present were: Tom Taggart (San Marcos), Brock Curry (EAA), Steve Raabe (SARA), Mary Bailey (SAWS), Myron Hess (National Wildlife Foundation), and Adam Yablonski (Member-at-Large).

2. Approval of minutes from the April 7, 2017 meeting.

The Chair asked for approval of the April, 7, 2017 meeting minutes. Hearing no objections or edits, the minutes were approved as submitted.

3. Receive report from the Program Manager on general topics related to the operation of the Budget Work Group

Mr. Pence (HCP Program Manager), opened the discussion on Table 7.1a. Mr. Pence, explained that this document is an internal document used to track expenditures and is considered a “living document”. As such, he is not inclined to put it online for public viewing since it is always changing and being updated. Mr. Pence offered to present Table 7.1a to the Work Group at any time they so choose. The Chair thanked Mr. Pence for the update.

4. Nominate and appoint a Member-at-Large.

The Chair opened the floor to discuss the nomination of Mr. Adam Yablonski. Mr. Pence reminded the Work Group that a formal motion and a consensus vote is needed for the administrative record. The Chair made the motion to approve Mr. Yablonski to serve as the Member-at-Large. Mr. Raabe seconded the motion, hearing no objection, the motion passed.

5. Presentation and discussion of Calculation of the Drought of Record (DoR) Projected Expenses and; the Calculation Used to Determine \$46 Million Reserve Cap.

Mr. Pence began by discussing the role of the Funding and Management Agreement (FMA) as establishing the HCP Reserve Fund. The Reserve Fund was designed to fund expenditures in the event of a long-term drought. The FMA also established the Reserve cap of \$46 million. The FMA allows the cap to be amended if the Implementing Committee

chooses to do so. Mr. Pence commented that he is often asked how much it would cost if a Drought of Record (DoR) were to occur.

Mr. Pence presented historical program costs in relation to the current springflow protection programs. Mr. Pence, then presented revenue projection that could occur during a DoR establishing the basis of how the DoR calculations were developed. If a 10-year DoR were to occur based on revenues and expenses estimated in the FMA, the EAA would need approximately \$42 million additional dollars to get through a DoR. Discussion followed.

Mr. Pence followed up the discussion on the establishment of the \$46 million reserve cap. The cap was established by the EARIP group in 2011 and 2012. Mr. Pence continued with the history of the establishment of the reserve cap. Discussion followed.

Mr. Pence continued saying that the FMA does not establish a reserve minimum and that currently the HCP Reserve funds is approximately \$30 million. Based on pre-payment and frontloading of several programs, the reserve accumulation rate has been impacted. However, the reserve is functioning as intended.

Ms. Bailey brought up that, based on her recollection, the estimation of the DoR calculations were conservative and based on a worst case scenario. She also pointed out that as the program moves ahead, the need for a reserve will decrease as the likelihood for a DoR will decrease. She indicated that SAWS, by ordinance, has requirements to have at least 300 days of reserve on hand and she is not opposed to the concept of a minimum of a year of operating costs, which are about \$20 million. Discussion followed.

Mr. Pence discussed the fact that various conservation measure measures that would be reduced due to Provision M of the Incidental Take Permit (ITP). Provision M requires that when springflows are reduced, then activities that could cause ecological harm are suspended, which would reduce the expenditures on those activities.

Mr. Raabe, discussed that there is some rationale in “ratcheting” down the reserve as the end of the ITP approached. Mr. Pence stated that the EAA is functioning as if they will continue to move forward with another ITP; therefore, there will still be a need for some funding as opposed to starting over with the accumulation of a new reserve. Discussion followed.

The Chair pointed out that a minimum of a four-year reserve fund is necessary at a minimum because, if the reserve were depleted and the EAA raised the Aquifer Management Fee to restore the funds, the impacts to raising rates during a DoR can have a significant impact to rate payers, etc. If rates are to be raised to maintain a reserve, then a ramping up of rates is more appropriate and alleviates several issues associated with rapid increase of rates and the impacts to the rate payers. Discussion followed.

6. Presentation and discussion of the Impacts to the Reserve Fund based on the VISPO Payouts, and the Frontloading of Refugia and Regional Water Conservation Programs.

Ms. Hendrix, EAA Controller, showed slides presenting the impacts to the reserve accumulation rate due to the frontloading of payments to the Regional Water Conservation Program (RWCP) and Refugia program, as well as, forbearance payments for Voluntary Irrigation Suspension Program Option (VISPO). Ms. Hendrix also showed the estimated rate at which the reserve would have accumulated had these programs not been frontloaded. Discussion followed.

Mr. Pence pointed out that the Implementing Committee reviewed and approved these expenditures for the Refugia program, RWCP, and the National Academy of Sciences. These expenses were fully contemplated. The Chair agreed and added that there were also savings in other programs that allowed some of the frontloaded expenses. Discussion followed.

7. Presentation and discussion of Aquifer Management Fee (AMF) Scenarios and Revenue Forecast through the end of the ITP using Multiple Drought Scenario Impacts to the HCP Reserve Fund.

Ms. Hendrix, presented a variety of probable drought scenarios and their impacts to the reserve fund. Ms. Hendrix presented: the 1) best case (no drought); 2) a 50% probability of occurrence; 3) a 14% probability of occurrence; 4) a 0.2% probability of occurrence and; 5) the worst case of less than 0.2% chance of occurrence.

Mr. Pence clarified that based on modeling information, there is almost a 0% chance of VISPO or ASR triggering in 2018 or 2019.

Mr. Curry pointed out that even with impacts to the reserve in a drought and funds dropping below the suggested floor of \$26 million, there are still significant funds available. However, under the worst-case scenario, a ten year DoR, the reserve fund would likely be depleted without increases to the AMF. Discussion followed.

Ms. Hendrix then presented slides displaying financial forecasts based on actual expenses to date and then projected expenses to through the term of the ITP and the projected reserve balance over time.

Mr. Pence then opened the floor to further discussion prior to moving on to agenda item #8.

Mr. Hess asked about what the presumptions were regarding Phase II costs. Mr. Pence replied that Phase II costs were not contemplated. If there were a Phase II action, there is no funding for that. The HCP says that once a project is identified, then a funding source will be identified. The Chair stated that estimates were made with a presumptive Phase II and those costs were in relation to Phase I costs. However, Phase II costs are unfunded future costs. Discussion followed.

8. Presentation and discussion the 2% escalator discussed in the FMA to account for economic increases throughout the term of the ITP.

Mr. Abernathy, EAA staff, presented slides that discussed the 2% escalator that is allowed by the FMA to be applied to Table 7.1 to provide a cap of spending obligations by the EAA. The escalator is compounded annually for each year in the EAHCP that have elapsed since 2013.

Mr. Abernathy showed program totals based on current projects, and escalated Table 7.1 totals. Discussion followed.

The Chair asked a question about contracts and the fact that their budget is set by contract terms and not by an escalator. Mr. Pence replied that much of EAA contracts were, indeed, set by terms and did not have an escalator built in. Discussion followed.

The Chair stated that the table showed that the program does not need to apply the escalator at this point to make up deficiencies. Mr. Pence reminded the Group about the 2015 memo written by Mr. Roland Ruiz, EAA General Manager, that said funds can be moved between tasks and between years as long as we don't exceed the total program amounts. Mr. Pence stated that it was EAA's intent that funds could be transferred between entities, however, based on conversations held with the City of New Braunfels about allowing San Marcos to use their excess funds to make up deficiencies, there was resistance on the part of New Braunfels. These items need to be addressed by the Implementing Committee as part of a formal action.

Mr. Taggart stated that memo reflects what is already contained in the controlling documents. Discussion followed.

Ms. Bailey asked to return to the FMA information slide discussing the EAA's obligation. Ms. Bailey stated that from her remembrance and opinion, the EAA specifically wanted the protections of a maximum spending obligation which was 2013 Table 7.1 budget with the escalator applied. The escalator essentially caps the amount of funding responsibility the EAA. Discussion followed.

Mr. Abernathy presented a final slide showing the impacts to the AMF if the 2% escalator were applied. If the escalator were applied, then rate payers would feel the effects in their permit fees. Mr. Pence clarified that the escalator would not be applied to every conservation measure due to contract terms, etc. Mr. Curry said that based on the projected expenses based on actuals in the early years, costs will not exceed projected budgets. Mr. Taggart agreed and stated that at this point in time, it does not appear that the escalator will be required. Discussion followed.

9. Discuss desired outcomes and potential deliverables for the Work Group.

Mr. Taggart began by stating the purpose of the Work Group, which is an advisory group to the Implementing Committee, and the Implementing Committee's role is approve the annual work plans and submit those to the EAA. Mr. Taggart thinks the Implementing

Committee is looking for an understanding of findings of long-term view of finances. The Implementing Committee is primarily looking for a recommendation of certain trends and their impacts to the work plans and how they fit in the overall program funding and reserve projections. The program is well within the program budget based on probabilities of a drought. Discussion followed.

Mr. Pence summarized some areas of consensus of the group regarding a recommendation to the IC:

- Total financial picture and trends are positive and look good and we are operating within our means,
- Need to maintain a stable AMF,
- Shouldn't go over the \$46 million cap,
- Discussed a floor for the reserve not to go below. The floor would be \$28.7 million due to possible increases in ASR rates
- The 2% escalator is not needed right now,
- Need to be realistic in our forecast expenses,

-This is just a summary of what may be included in the group report.

Mr. Taggart suggested that it be included with the annual budget submittal by the IC. This could be done each year. Discussion followed.

At this point, discussion returned to the Reserve Fund:

Mr. Curry mentioned the suggested floor or \$28.7 million and based on existing policies, he recommended the floor be set at \$26 million to allow more flexibility. Mr. Hess felt that the EAA can do a better job of projecting costs and the impact to the reserve fund. Discussion followed.

Mr. Yablonski brought up the item listed above regarding a stable AMF. He felt that allowing some flexibility in the AMF may help meet some political needs of the EAA and appropriate to meet the needs of the reserve fund. Discussion followed.

Mr. Pence outlined the historical process involved in calculating the amount of reserve amount needed to survive the DoR. Discussion concerning the reserve minimum followed.

Mr. Pence concluded that this discussion that EAA staff will draft the report and submit the draft to the Work Group members for review and edit.

10. Discuss future agenda items.

The EAA budget timeline was discussed to determine when the Work Group should meet next to present the report to the Implementing Committee.

11. Consider future meetings, dates, and locations.

To present the Work Group Report, the Group will meet again in sometime during the first two weeks of September, 2017.

12. Questions and comments from the public.

There were none.

13. Adjourn.

The meeting adjourned at 12:19 p.m.