



Edwards Aquifer Habitat Conservation Plan
Report of the 2017 Budget Work Group

August 10, 2017



To: Edwards Aquifer Habitat Conservation Plan Implementing Committee

From: Edwards Aquifer Habitat Conservation Plan Budget Work Group

Date: August 10, 2017

In early 2017, the Edwards Aquifer Habitat Conservation Plan (EAHCP) Implementing Committee (IC) created a Budget Work Group to review Edwards Aquifer Authority (EAA) adherence to controlling documents, and to make recommendations to the Implementing Committee regarding any changes to ensure good stewardship of permittee dollars. Towards that end, this Work Group held two meetings in 2017. The Work Group's findings and budget documentation are summarized below and discussed in depth in the attached report.

Considering the full term of the ITP of 15 years, the Work Group found that the overall financial picture of the EAHCP program is sound, and that, based on reasonable projections of costs, the EAA is managing the EAHCP Reserve Fund ("Reserve") at a sufficient level to cover those costs with appropriate management of the Aquifer Management Fee (AMF) going forward. The Work Group determined that, given the makeup of the Work Group, it would not be appropriate or productive to undertake a legal analysis of compliance with governing documents. Instead, the Work Group focused on assessing the likelihood that EAHCP funding needs would be met in the event of a recurrence of drought of record (DOR) conditions. Additionally, the Work Group found that:

- The EAHCP budget picture is positive and its trend looks good. The EAHCP program is operating within its means.
- The Work Group supports a general goal of a stable Aquifer Management Fee (AMF), as long as the EAHCP program AMF is responsive and reflective of EAHCP program requirements needed to conform to the Implementing Agreement and the Funding and Management Agreement and achieve the program goals and objectives.
- Reasonable flexibility, within clearly defined limits, in the management of the AMF, is desirable for the EAA and EAHCP and allows the EAA to be responsive in the management of the Reserve and other budget components.
- For the near-term, the Reserve should be sufficient, subject to the \$46 million cap set in the FMA, from a budgetary perspective, as long as it does not fall below \$26.4 million (see page 6). However, that lower limit should be reviewed for possible adjustment as necessary to reflect any budget changes made within the budgetary constraints of Table 7.1 of the EAHCP, including significant Adaptive Management Decisions, to meet the needs of the EAHCP. Unless adjusted through the review process, the Reserve should not be allowed to fall below \$26.4 million except when drought-specific ASR and VISPO measures are triggered.
- Based on projected expenditures, the overall annual budget totals set out in Table 7.1 of the HCP appear to be more than sufficient to cover projected expenses through the 15-year initial term of the ITP. However, future cost projections should be based on realistic estimates,

including inflationary impacts where appropriate, while also considering limits on the Annual Funding Obligation set forth in the FMA.

- The Work Group should remain active, throughout the permit term, to provide recommendations to the IC on an as needed basis.

Finally, to ensure it meets its mandate, the Work Group recommends that it meet annually, or more frequently if a specific need arises, to review projected EAA budget information and recommend further recommendations to the Implementing Committee and provide the EAA with comments, as necessary.

This report will be presented to the Implementing Committee at its meeting on August 17, 2017.

Tom Taggart, Chair
EAHCP Budget Work Group

OVERVIEW

At the February 16, 2017 meeting, the Edwards Aquifer Habitat Conservation Plan (EAHCP) Implementing Committee created the EAHCP Budget Work Group, approved a Work Group charge (Appendix A) and appointed the following members to serve on the Work Group:

- Tom Taggart, Implementing Committee (IC) Member (serving as Chair)
- Brock Curry, Edwards Aquifer Authority (EAA) designee
- Steve Raabe, EAHCP Stakeholder member
- Myron Hess, EAHCP Stakeholder member
- Mary Bailey, San Antonio Water System (SAWS) designee
- Vacant, Member-at-Large

At the first meeting, the Work Group nominated and appointed Adam Yablonski to fill the vacant Member-at-Large position, who joined the Work Group at the second meeting.

The Work Group held two meetings. The first meeting was held on April 7, 2017 in the New Braunfels City Hall, and the second meeting was held on May 11, 2017 at the San Marcos Activity Center. Meetings were held as open meetings where the Work Group operated by consensus and attendees actively participated in the discussion. The agendas and minutes from each meeting are included as Appendices C and D, respectively.

The purpose of the Work Group was to review and consider the EAA's EAHCP budget and reserve, as a function of the EAA's recent adjustment to the Program Aquifer Management Fee (AMF) rate. Ultimately, the Work Group was to make recommendations to the IC regarding potential input the IC may want to provide the EAA Board of Directors, for its consideration in approving the annual EAA budget.

Considering the full term of the Incidental Take Permit (ITP) of 15 years, the Work Group found that the overall financial picture of the EAHCP program is sound, and the EAA is managing the EAHCP Reserve Fund (Reserve), based on current projections, at a sufficient level to cover those projected costs with appropriate management of the AMF going forward.

WORK GROUP DISCUSSIONS

During the two meetings, Work Group members and EAA staff presented information¹ on items including the following:

- Funding and Management Agreement (FMA),
- EAHCP 2017 Budget,
- EAA Budgeting Process,
- EAA Aquifer Management Fee and the EAHCP Reserve,
- Calculation of the Drought of Record (DOR) Projected Expenses and the Calculation Used to Determine \$46-Million Reserve Cap,
- Impacts to the Reserve based on the Voluntary Irrigation Suspension Program Option (VISPO) Payouts, and the frontloading of Refugia and Regional Water Conservation Programs,
- AMF Scenarios and Revenue Forecast through the end of the ITP using Multiple Drought Scenario Impacts to the Reserve,
- 2% Escalator discussed in the FMA to account for economic increases throughout the term of the ITP.

This information was used by the Work Group members as they discussed key topics and formulated their recommendations to the IC related to the following four issues:

1. EAHCP Reserve Fund,
2. EAA Aquifer Management Fee,
3. Annual Funding Obligation Limit,
4. Future Role of the Work Group.

These four issues and the Work Group's discussions concerning them are described in detail below.

1) EAHCP RESERVE FUND

Determination of the EAHCP Reserve Cap

As previously discussed, the Work Group received information concerning the FMA and the EAA budget and budgeting process. However, a primary focus of the Work Group was to look at the EAHCP Reserve and long-term projections for the accumulation of funds. Section 5.5.4 of the FMA² requires that the Reserve be capped at \$46 million. This amount was determined by the EARIP in 2012 as the amount necessary to fund an operating reserve plus certain increased costs that were predicted if a DOR were to occur. In Table 7.1 in the HCP, costs are set out on an average basis even though certain costs, specifically Aquifer Storage and

¹ All graphic information presented to the Work Group may be found in Appendix B – Slide Presentations.

² Section 5.5.4 of the Funding and Management Agreement

Recovery leases and operations and VISPO forbearance payments, will be higher during certain drought years.

EAA staff presented discussion items as to how the cap was originally established and the criteria that went into the calculations (see Figure 1 below).

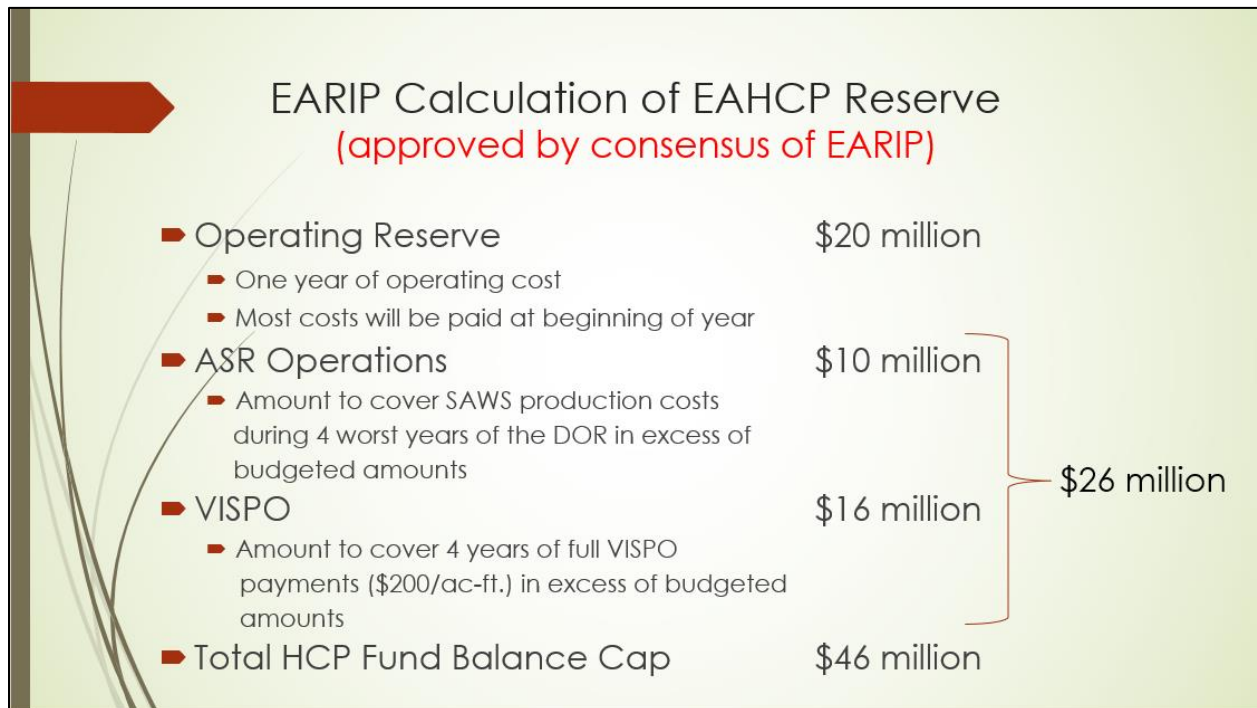


Figure 1. Calculation of the \$46 million cap and the criteria used

The calculation of the EAHCP Reserve was based on the amount that expenses needed to fund ASR and VISPO programs were expected to exceed projected AMF income during the most severe four years of a 10-year DOR, including a one year operating reserve. Based on information presented, the Work Group agreed that if the Reserve were maintained with a minimum balance of \$26.4 million³ and did not exceed the FMA established cap of \$46 million, the Reserve should be considered as being managed in a sustainable manner, and is sufficient. In arriving at that minimum balance, the Work Group also recognized that overall projected program costs are less than the original Table 7.1 values and that some costs have been frontloaded. The Work Group also acknowledged that if the Reserve balance continues to decline as a result of ASR and VISPO expenses associated with a DOR, the EAA would need to increase the AMF or take other action in a timely manner to meet any forecasted funding shortages that might occur, subject to the funding limits within the FMA. Given that acknowledgement, the Work Group agreed that, from a budgeting perspective, the full year

³ The Work Group agreed to a \$26.4 million minimum based on the original \$26 million estimate approved by the EARIP as adjusted to reflect changes in the ASR leasing rate.

operating reserve amount was unnecessary. The Work Group also acknowledged that a full year operating reserve was atypical in most organizations' fiscal policies.

Impacts to the Reserve Accumulation Rate Under Drought

EAA staff also presented various drought scenarios and spending/revenue schemes and their impact to the Reserve accumulation rate (see Figure 2 below).

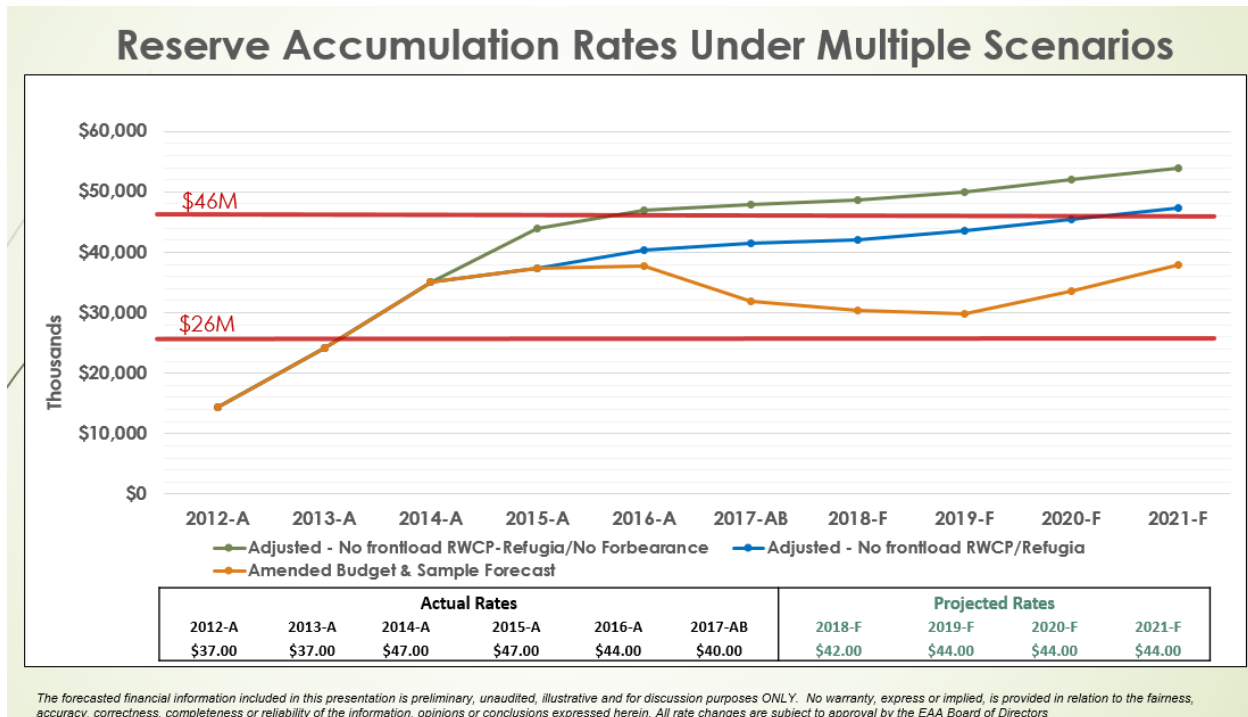


Figure 2. Reserve accumulation under various drought scenarios

The projections indicate that if there had been no frontloading⁴ of program costs, and if there had been no VISPO forbearance payments in 2015, the Reserve would have reached the \$46 million cap in 2016. However, the IC authorized the frontloading of costs to maintain compliance or to take advantage of certain longer-term financial savings (i.e. early and definite compliance with the RWCP contract with SAWS) and VISPO officially triggered for 2015.

⁴ “Frontloading” is defined as an arrangement to incur and pay off expenses earlier than originally anticipated in Table 7.1 of the HCP. Examples include: the Regional Water Conservation Program contract with SAWS, which guaranteed compliance with the HCP, but required payments over shorter time frame than contemplated in Table 7.1, and the implementation of the Refugia, which will incur construction costs in the first years of the contract that were necessary for USFWS facilities to become compliant with the contract requirements and that exceeded the annual amounts contemplated in Table 7.1 for those years.

Possible Adjustments to the AMF Under Drought

Although the FMA established a cap on the Reserve, data presented by EAA staff indicated that the Reserve does not need to be maintained at the cap to cover expenses. Currently, the Reserve is funded at approximately \$30 million.

The Work Group also acknowledged the fact that the EAA may need to adjust the AMF incrementally over time to manage future funding requirements such as increased VISPO and ASR payouts.

2) EAA AQUIFER MANAGEMENT FEE

As mentioned in the Reserve discussion, the Work Group received presentations on various drought scenarios and spending/revenue schemes and their impacts to the AMF. Reasonable flexibility in the management of the AMF, within clearly defined limits, is desirable for the EAA operations and EAHCP and allows the EAA Board to be responsive in the management of the Reserve. Although long term stability of the AMF and fully funding the EAHCP, is the desired goal, it was understood by the Work Group that adjusting the AMF would need to occur under severe conditions of extended drought or to meet EAA operational needs. It was acknowledged that, especially among water utility purveyors, increasing rates while decreasing supplies is a very difficult option to sell to their customers, especially while in extended drought periods. It was also acknowledged that, just as rates may increase in times of drought, rates should also decrease when conditions allow and/or the \$46 million cap is reached.

Although the Reserve has been accumulating at a reasonable rate and the probability of triggering ASR or VISPO drought response measures in the next few years is low, EAA will conduct a review and analysis of the AMF annually through its financial forecast process and adjust as necessary.

The Work Group further acknowledged that the FMA requires the EAA to fully fund the EAHCP in assessing and setting the AMF.

3) ANNUAL FUNDING OBLIGATION LIMIT

Table 7.1 of the FMA estimates the cost of the HCP program to be \$261 million over the 15-year initial term of the HCP. Section 5.2.1 of the FMA requires the EAA to provide funding for implementation of the HCP program through the term of the ITP. However, the Annual Funding Obligation is limited to a maximum of a 2% increase of the 2013 Annual Funding Obligation, compounded annually for the years that have elapsed since 2013.

Related to the budget escalator, the Work Group received information comparing overall projected program costs with actual and forecasted expenses. Currently, it is expected that total program costs, even with a DOR event, will be approximately \$232 million over the permit term, more than 10% less than the total projected costs of \$261 million outlined in Table 7.1 (see Figure 4 below).

Program Totals -

Entity	Table 7.1 Program Totals	Table 7.1a Projected Program Totals
Edwards Aquifer Authority	\$238,483,955	\$208,382,466
City of San Marcos-Texas State University	\$ 11,894,000	\$ 12,649,485
City of New Braunfels	\$ 11,530,000	\$ 11,033,131
Program Totals	\$261,907,955	\$232,065,082

Figure 3. Projected program costs

While certain program costs are fixed by their associated contract terms (e.g., Refugia, RWCP, water quality monitoring, etc.), other program components such as HCP staff salaries, administrative costs, lease and forbearance costs, and construction material costs, may be subject to inflationary pressure. These inflationary impacts could necessitate an increase in the Annual Funding Obligation to meet required metrics and maintain compliance or be mitigated by transferring savings from one Conservation Measure to another Conservation Measure with a justified financial need to meet or maintain compliance.

4) FUTURE ROLE OF THE BUDGET WORK GROUP

The Work Group understands its role and purpose as being an advisory group to the IC in evaluating the long-term finances of the EAHCP. Therefore, the Work Group recommends that it be recognized as a standing work group that will meet on an annual basis (most likely in September in order to inform the budget development process and more frequently than annually if necessary to address unusual circumstances), to review the latest budget information from EAA staff which would be followed up with a recommendation to the IC, if needed.

CONCLUSIONS & RECOMMENDATIONS

Overall, the Work Group found that the total financial picture of the EAHCP program is sound, and, based on current expense projections, the Reserve currently is at a sufficient level to cover expected costs. The Work Group developed the following specific recommendations and conclusions to the IC and for consideration for communication to the EAA Board:

1. The EAHCP budget picture is positive, and its trend looks good. The EAHCP program is operating within its means.
2. The Work Group supports a general goal of a stable Aquifer Management Fee (AMF), as long as the EAHCP program AMF is responsive and reflective of EAHCP program requirements needed to conform to the Implementing Agreement and the Funding and Management Agreement and achieve the program goals and objectives.
3. Reasonable flexibility, within clearly defined limits, in the management of the AMF is desirable for the EAA and EAHCP and allows the EAA to be responsive in the management of the Reserve and other budget components.
4. For the near-term, the Reserve should be sufficient, subject to the \$46 million cap set in the FMA, from a budgetary perspective, as long as it does not fall below \$26.4 million (see page 6). However, that lower limit should be reviewed for possible adjustment as necessary to reflect any budget changes made within the budgetary constraints of Table 7.1 of the EAHCP, including significant Adaptive Management Decisions, to meet the needs of the EAHCP. Unless adjusted through the review process, the Reserve should not be allowed to fall below \$26.4 million except when drought-specific ASR and VISPO measures are triggered.
5. Based on projected expenditures, the overall, annual budget totals set out in Table 7.1 of the HCP appear to be more than sufficient to cover projected expenses through the 15-year initial term of the ITP. However, future cost projections should be based on realistic estimates, including inflationary impacts where appropriate, while also taking into account limits on the Annual Funding Obligation set forth in the FMA.
6. The Work Group should remain active, throughout the permit term, to provide recommendations to the IC, on an as needed basis.

Next Steps & Annual Follow-up

Throughout the Work Group meetings, open and continual communication between EAA and the EAHCP program about budget issues, on both sides, was stressed as paramount to the success of the EAHCP and collaboration between the two. Additionally, all Work Group participants clearly understood and acknowledged that outside the Implementing Agreement and FMA, the EAHCP process has no authority or decision making capabilities in the EAA Budget process. Because of these two points, the Work Group will follow the below steps to provide this report to the EAA Board and makes the following recommendation related to annual communication between the EAA and the EAHCP Budget Work Group.

Next Steps: The EAHCP Budget Work Group will provide this report to the EAHCP IC in the summer 2017. The Work Group recommends that the IC provide the report to the EAA Board at the next scheduled meeting.

Recommendation: Beginning in 2017⁵, and on an annual basis thereafter, prior to the September IC meeting, the EAA should present to the EAHCP Budget Work Group a budget presentation to include:

1. AMF projected rates,
2. Any changes to actual and/or projected EAHCP expenses, including adjustments to projected ASR and VISPO payments or forbearance rates,
3. Resulting impacts to the EAHCP Reserve based on #1 and #2, and
4. Impacts to the EAHCP Reserve based on updated DOR scenarios and probabilities.

⁵ If there are no changes to the AMF rate shown to the Work Group by EAA staff and there are no significant changes in expenditure projections related to the 2018 EAHCP Budget, this annual presentation may begin in September 2018 as would be associated with development of the 2019 Budget.

APPENDIX A
WORK GROUP CHARGE

Charge of the EAHCP Budget Work Group

The Edwards Aquifer Habitat Conservation Plan (EAHCP) has numerous controlling documents and schedules for budget management within the EAHCP: Table 7.1, the Interlocal Agreements with the Permittees, the Funding and Management Agreement, the Implementing Agreement, and the HCP. These documents establish how revenue is collected and funds are expended, including the processes, timelines and amounts. The purpose of the EAHCP Budget Work Group is to review the EAHCP programs adherence to these controlling documents and make recommendations to the Implementing Committee regarding any directional changes that ensure a good stewardship of the public dollars. Towards that end, as a guiding principle, the Budget Work Group will review the EAHCP budget process – revenue and expenses – to ensure a fiscally responsible program, and make recommendations to the Implementing Committee.

This document lays out the charge and administration of the Budget Work Group as approved by the Implementing Committee.

Specifically, the Work Group will:

- Collaborate with and inform the EAA Budget Process, as it relates to the EAHCP, EAHCP reserve and EAHCP aquifer management fee.
- Address fiscal issues as they arise and are referred by the Implementing Committee.

Membership & Meeting Organization: The Implementing Committee may appoint the following members to the Work Group: Implementing Committee Member Tom Taggart, an Edwards Aquifer Authority designee, Stakeholder Member Steve Raabe, Stakeholder Member Myron Hess, a San Antonio Water System designee and a Member-at-Large. At the request of Implementing Committee Chairman Sansom, Tom Taggart shall serve as the Work Group Chair. The IC Chairman may change the membership or chair of the committee as described in “Duration and Flexibility of Work Group”.

The Work Group will develop its recommendations through a consensus decision-making process and will present these recommendations to the IC at the earliest opportunity.

Duration and Flexibility of Work Group

This Work Group shall exist for the duration of the ITP. However, there is a recognition that the group will need to adapt and be flexible as new issues are identified. Therefore, this charge and membership is to be revisited each January and if needed, may be modified by motion and consensus of the Implementing Committee.

APPENDIX B
SLIDE PRESENTATIONS

KEY FINANCIAL DOCUMENTS

HABITAT CONSERVATION PLAN (Chapter 7)

FUNDING AND MANAGEMENT AGREEMENT (App. R)
(Amendment to FMA)

IMPLEMENTING AGREEMENT

JOINT FUNDING AGREEMENT

FUNDING AND MANAGEMENT AGREEMENT

by and among

The Edwards Aquifer Authority, The City of New Braunfels, The City of San Marcos,

The City of San Antonio, acting by and through its San Antonio Water System Board of Trustees, and Texas State University – San Marcos to fund and manage the Habitat Conservation Plan for the Edwards Aquifer Recovery Implementation Program

This Funding and Management Agreement (Agreement), effective on the Effective Date provided in Section 8.1, is an interlocal cooperation contract made pursuant to Texas Government Code Chapter 791 by and among the Edwards Aquifer Authority (“EAA”), the City of New Braunfels (“New Braunfels”), the City of San Marcos (“San Marcos”), the City of San Antonio acting by and through its San Antonio Water System (“San Antonio”), and Texas State University – San Marcos (“University”) (collectively, the “Parties,” and individually, “Party”).

Recital B. Purpose.

The purposes of this Agreement are to:

- (1) provide the terms of the rights and duties agreed to by the Parties for managing and funding the Program for the implementation of the HCP as provided in the Implementing Agreement; and
- (2) provide the terms of the Program's Adaptive Management Process.

Article One – Definitions and Other References

Article Two – Permit Application and Program Management

Article Three – Duties and Responsibilities of the Parties

Article Four – Program Work Plan and Budget Approvals

Article Five – Program Costs and Funding

Article Six – Applications for Program Funding

Article Seven – Adaptive Management Process

Article Eight – General Provisions

1.1.4 “Annual Funding Obligation” means the level of funding required to be provided by the EAA for the Annual Program Budget as established according to Section 3.2 and Subsection 5.2.1.

1.1.5. “Annual Program Budget” means the budget for Program Expenditures adopted by the Board of Directors of the EAA for each year of the Permit Term pursuant to the process described in Sections 4.4 through 4.7, subject to the limitations in Section 3.2 and Subsection 5.2.1.

1.1.23. “Excess Fund Balance” means any amount of funds at the end of an EAA budget year that has accumulated in the HCP Program Account in excess of the Fund Balance Cap.

1.1.24. “Fund Balance” means the accumulation of the excess of Program Aquifer Management Fees and other funds deposited to the HCP Program Account over Program Expenditures.

1.1.25. “Fund Balance Cap” means the maximum Fund Balance that the EAA may plan to accumulate in the reserve fund of the HCP Program Account as provided in Subsection 5.5.4.

1.1.27. “HCP Program Account” means the restricted account, composed of a **reserve fund** and an **operations fund**, created by the EAA in accordance with Section 5.4 to accumulate and disburse Program Aquifer Management Fees consistent with the Annual Program Budget for the implementation of the Program.

Excerpt from HCP, Section 7.1.2, Page 7-6:

To the extent there is a “Fund Balance” (*id.* § 1.1.24) in any particular year over “Program Expenditures,” (*id.* § 1.1.43), the EAA will accumulate the balance in the reserve fund of the HCP Program Account. (*id.* § 5.5.4). However, the amount that the EAA may accumulate is capped at \$46 million dollars. (*id.*). This cap is referred to as the “Fund Balance Cap.” (*id.* § 1.1.25). **The reserve fund will allow the accumulation of funds for the projected costs of the VISPO and SAWS ASR measures, full funding for which is needed at irregular periods and is based on a probabilistic analysis of the number of years in which these measures will be triggered as provided in Chapter 5.**

1.1.41. “Program Aquifer Management Fees”

means aquifer management fees collected by the EAA under Section 1.29 of the EAA Act from the holders of Edwards Aquifer groundwater withdrawal permits issued by the EAA and deposited in the HCP Program Fund to fund the costs of the Program.

Section 3.2. Each Party's Individual Duties and Responsibilities.

Each Party has sole responsibility for:

- (a) undertaking and performing each of the specific Conservation Measures assigned to that Party in Chapter 5 of the HCP;
- (b) if the Party determines to issue Certificates of Inclusion ...
- (c) undertaking and performing each additional duty and responsibility that may be assigned to that Party as a result of decisions made under the AMP; and
- (d) complying with the terms of this Agreement to implement the Program. **Subject to the limitations to the 2% annual increase from the 2013 Annual Funding Obligation as provided in Subsection 5.2.1, the EAA has responsibility for fully funding implementation of the Program, as the Program may be adjusted pursuant to the AMP.**

Section 4.6. Subsequent Years.

For the 2014 budget year and each subsequent budget year during the Permit Term, **each Party will prepare and submit its Annual Party Work Plan and Cost Estimate for inclusion into the Annual Program Budget**, in accordance with the requirements in Sections 4.4 and 4.5 but reflecting the activities and costs for the relevant budget year. The schedule for the submittal of the Annual Party Work Plan and Cost Estimate and the development and approval by the Implementing Committee and the EAA Board of Directors of the Annual Program Budget will be consistent with the schedule for the 2013 budget year, unless the Implementing Committee, with the approval of the EAA, establishes a different schedule.

Section 4.7. Limitation.

The EAA will promptly notify the Program Manager and Implementing Committee if the EAA Board is unable to grant final approval during any year to a proposed Annual Program Budget or any Program Funding Application submitted or proposed to be submitted by a Party as provided in Article Six, because funds available for the Program are or are likely to be insufficient. In that event, the Implementing Committee will collaborate in a timely manner to amend the proposed Annual Program Budget for that year to incorporate less costly measures, activities, or schedules that will still ensure compliance with the Program Documents, and each Party will amend its Program Funding Application consistent with the revised proposed Annual Program Budget. The Implementing Committee will not submit to the EAA for action by the EAA Board a proposed Annual Program Budget, or any amendment to such proposed budget, that provides for expenditures greater than the funds that the EAA expects to have available for that year, including any available Fund Balance as provided in Subsection 5.5.4.

Section 5.1. Program Implementation Costs.

Subject to the terms and limitations described in this Agreement, the cost of implementing the Program as described in Subsections 3.2 and 5.2.1 and Table 7-1 of the HCP, including maintaining appropriate reserves by the EAA, will be funded by Program Aquifer Management Fees, and by other contributions, grants and funds received by the EAA for implementation of the Program, all as described in this Article.

Section 5.2. Annual Funding Obligation of the EAA.

5.2.1. Level of Funding.

The EAA will provide funding for the costs of implementing the Program during each year of Phase I and Phase II (Annual Funding Obligation) in accordance with each Annual Program Budget approved by the Implementing Committee and the EAA Board. As long as adequate to implement the Program, the Annual Funding Obligation for 2013 will be at the amount indicated for 2013 in Table 7-1 of the HCP. The Annual Funding Obligation for 2014, and each Program year thereafter, may be increased or decreased from the Annual Funding Obligation for 2013 based on the Annual Program Budget developed for the year in accordance with Article Four. The Annual Funding Obligation for any Program year will be limited to the 2013 Annual Funding Obligation, adjusted for a 2% increase, compounded annually for the years that have elapsed since 2013. The EAA will ensure that any funds collected or received for the Program that are in excess of Program Expenditures during any year and result in a Fund Balance, as provided in Subsection 5.5.4, will be applied to Program Expenditures in subsequent years, subject to the provisions of Subsection 5.5.4.

5.2.2. Assessment of Fees by EAA.

The EAA will assess Program Aquifer Management Fees annually sufficient to meet the Annual Funding Obligation in accordance with Subsection 5.2.1. The EAA Board of Directors may, at its sole discretion, assess Program Aquifer Management Fees in an amount that will generate more funds than the amount required by Subsection 5.2.1, subject to the provisions of Subsection 5.5.4. If the EAA determines that the funds collected through the Program Aquifer Management Fees are or will be insufficient to fund the proposed Annual Program Budget and the associated Program Funding Applications for any year, the EAA will promptly notify the Implementing Committee of the expected amount of the insufficiency. The Implementing Committee will collaborate in a timely manner to amend the proposed Annual Program Budget as set forth in Section 4.7, and each Party will amend its respective Application for Program Funding consistent with the revised proposed Annual Program budget.

Section 5.4. The HCP Program Account.

Not later than October 1, 2012, the EAA will take action to create the HCP Program Account. The EAA will deposit funds in either the **reserve fund or operations fund** of the HCP Program Account as appropriate, and will **disburse funds from the operations fund of the HCP Program Account for costs and expenses** approved by the EAA in the Annual Program Budget in accordance with this Article. The HCP Program Account will **allow for the accumulation of a Fund Balance in the reserve fund** of the HCP Program Account subject to the Fund Balance Cap as provided in Subsection 5.5.4.

5.5.4. Fund Balance.

In recognition that Program Expenditures may be higher in years in which Edwards Aquifer levels are low or are anticipated to be low, the HCP Program Account will allow for the accumulation by the EAA of a Fund Balance. The **accumulated Fund Balance will be capped at \$46 million (Fund Balance Cap)**, unless amended by the Implementing Committee. **Any Excess Fund Balance may be used to reduce the Annual Funding Obligation** of the EAA as otherwise required under Section 5.2. The EAA will reduce the Program Aquifer Management Fees assessed for the next following year to fund the Annual Program Budget to reflect the use of the Excess Fund Balance in that year.

6.1.4. Withholding Action on Application.

The EAA may withhold action on a Program Funding Application if the funds in the HCP Program Account are insufficient to provide Program Funding in the requested amount or if the EAA identifies a consideration in Subsection 6.1.3 that is deficient and allows reasonable time for the filing of additional information before the application is reconsidered for final action. **If the reason for withholding action is the insufficiency of money in the HCP Program Account, the EAA will advise all applicants and withhold action on all applications until sufficient money is available.** The EAA will promptly notify the Program Manager, and the Implementing Committee and Parties will take action in accordance with Section 4.7 and Subsection 5.2.2, and submit revised applications for EAA review and approval

Section 6.5. Refund Upon Termination of this Agreement.

Upon termination of this Agreement, any available Fund Balance held by the EAA will be refunded pro rata to the permit holders and other funding parties from whom Program Aquifer Management Fees or funding contributions were collected during the immediate prior year, unless the Implementing Committee and EAA Board of Directors take action to transfer all or a portion of the Fund Balance to a successor program.

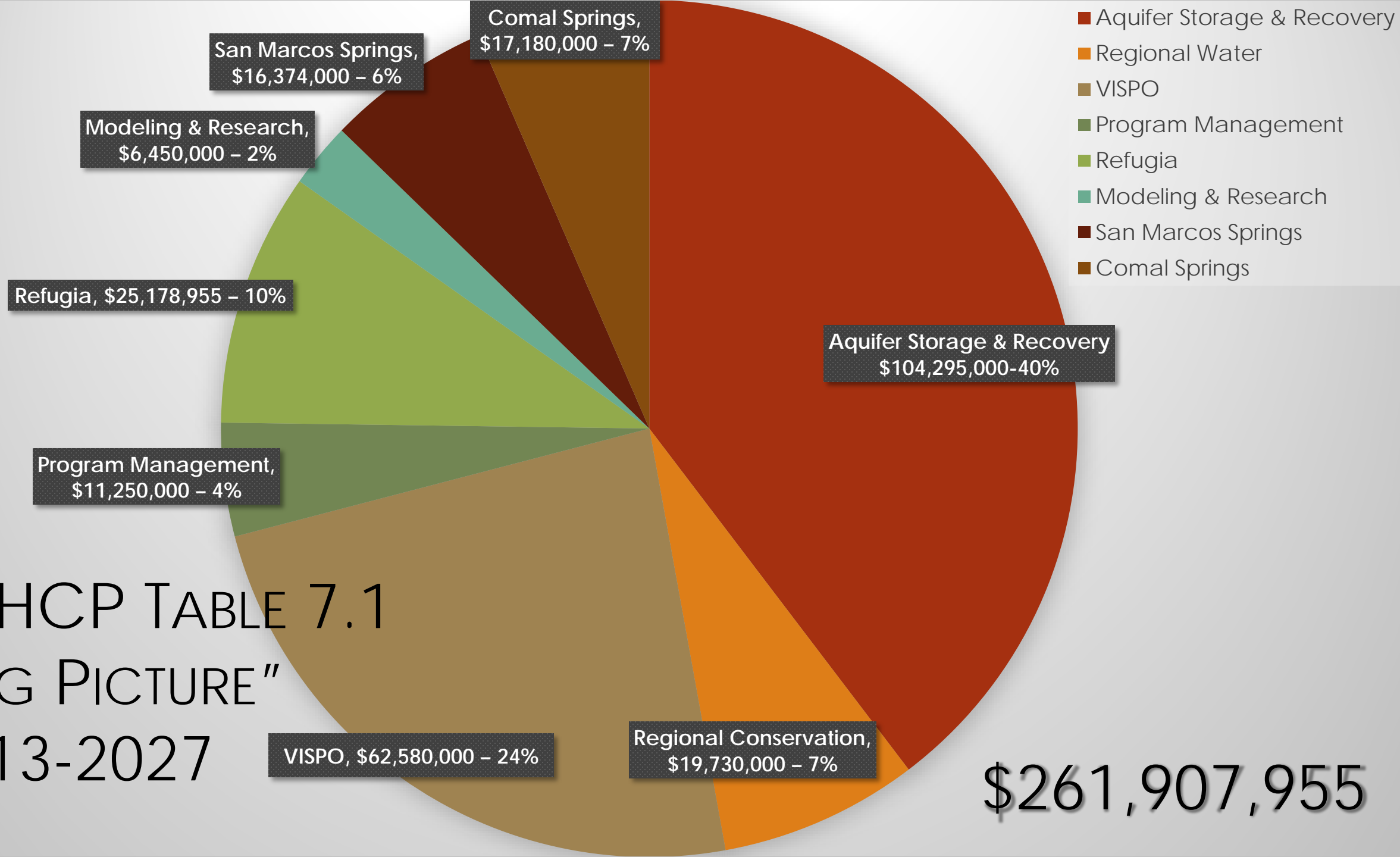
EAHCP BUDGET OVERVIEW



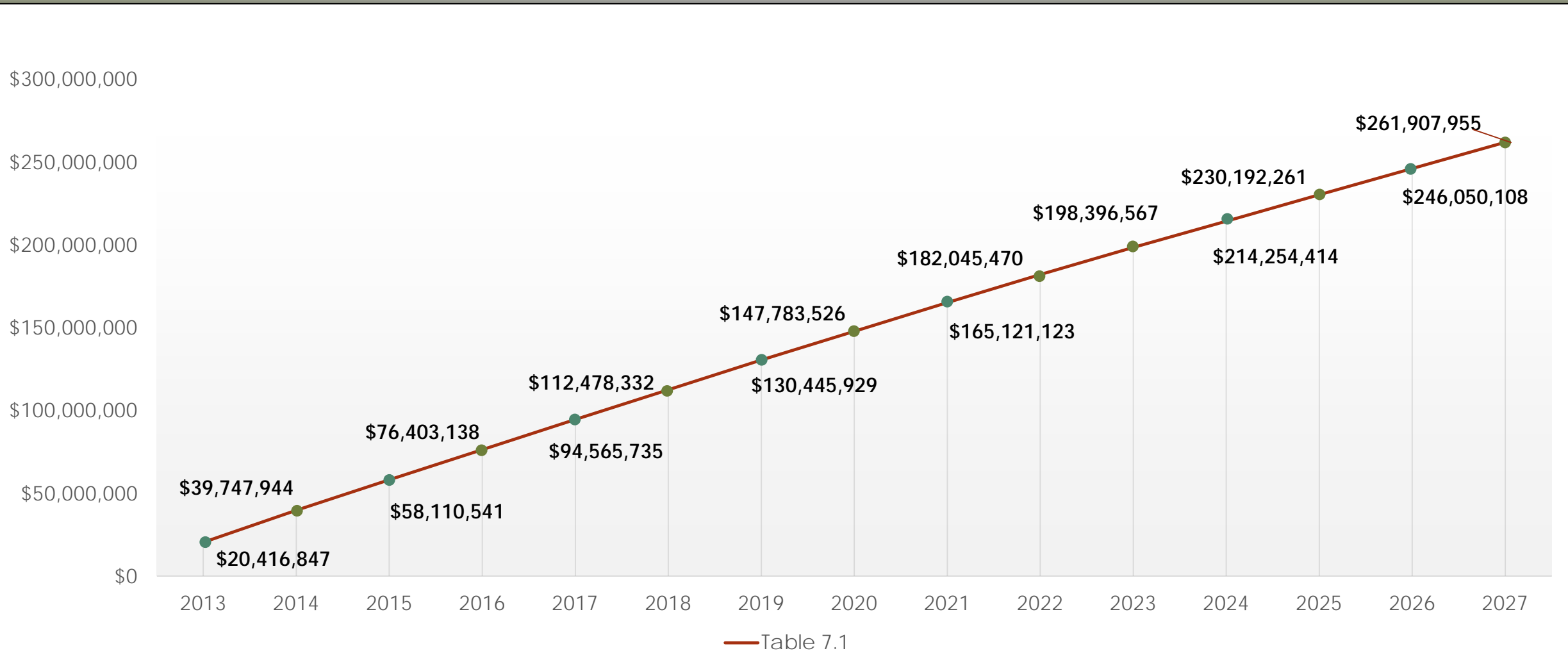
BUDGET WORK GROUP
APRIL 7, 2017



EAHCP TABLE 7.1
"BIG PICTURE"
2013-2027



EAHCP TABLE 7.1





EAA GM Memo on Budget Planning to the IC

MEMORANDUM

To: Nathan Pence, Program Manager, EAHCP
From: Roland Ruiz, General Manager, Edwards Aquifer Authority
Date: June 11, 2015
Subject: EAHCP Budget Planning Within Table 7.1

- “Table 7.1 represents a **maximum limitation (ceiling)** for funding of EAHCP activities; not a minimum guarantee (floor) for funding”
- EAA **unable to support any recommended Work Plans that cause EAHCP expenditures to exceed** the aggregate budget amount of Table 7.1
- Nevertheless, “**supportive of reprioritizing and/or reallocating** expenditures within Table 7.1, as may be necessary, based on actual experience and real costs according to the following criteria:”
 - **Zero net impact to Table 7.1**
 - **High priority needs only**

New Braunfels - Restoration of Riparian Zone: aka Bank Stabilization

Commitments	Amount
2014-2015 Carryover funds	\$410,000
2016 Table 7.1	\$100,000
2017-2020 Borrow from future	\$140,000
2016-2017 Borrow from Non-native animal	\$40,000
2016-2017 Borrow from Gill Parasite	\$90,000
2016-2017 Borrow from Household Hazardous Waste	\$60,000
2016-2017 Borrow from Low Impact Development	\$30,000
2016 Total Funding Application Request	\$870,000
2016 Actuals	\$824,803
Savings	\$45,197

- Bank Stabilization Project was a high priority for New Braunfels
- Carryover, Transfer, and Borrowing of funds is captured in Table 7.1A





7.1 ADJUSTED

"TABLE 7.1A"

*TRACKS PERMITTEES' COMMITMENTS TO
CHANGES IN 7.1 BUDGETS INCURRED BY
FUTURE-YEAR BORROWING, WITHIN YEAR TRANSFERRING,
AND CARRYING FORWARD FROM PREVIOUS YEARS .*

TABLE 7.1A

- Continually updated as changes are proposed (e.g., Work Plan or Funding Application amendments), creating a “Living document”
- Reflects the movement of money authorized by the Implementing Committee through Work Plans and Funding Applications

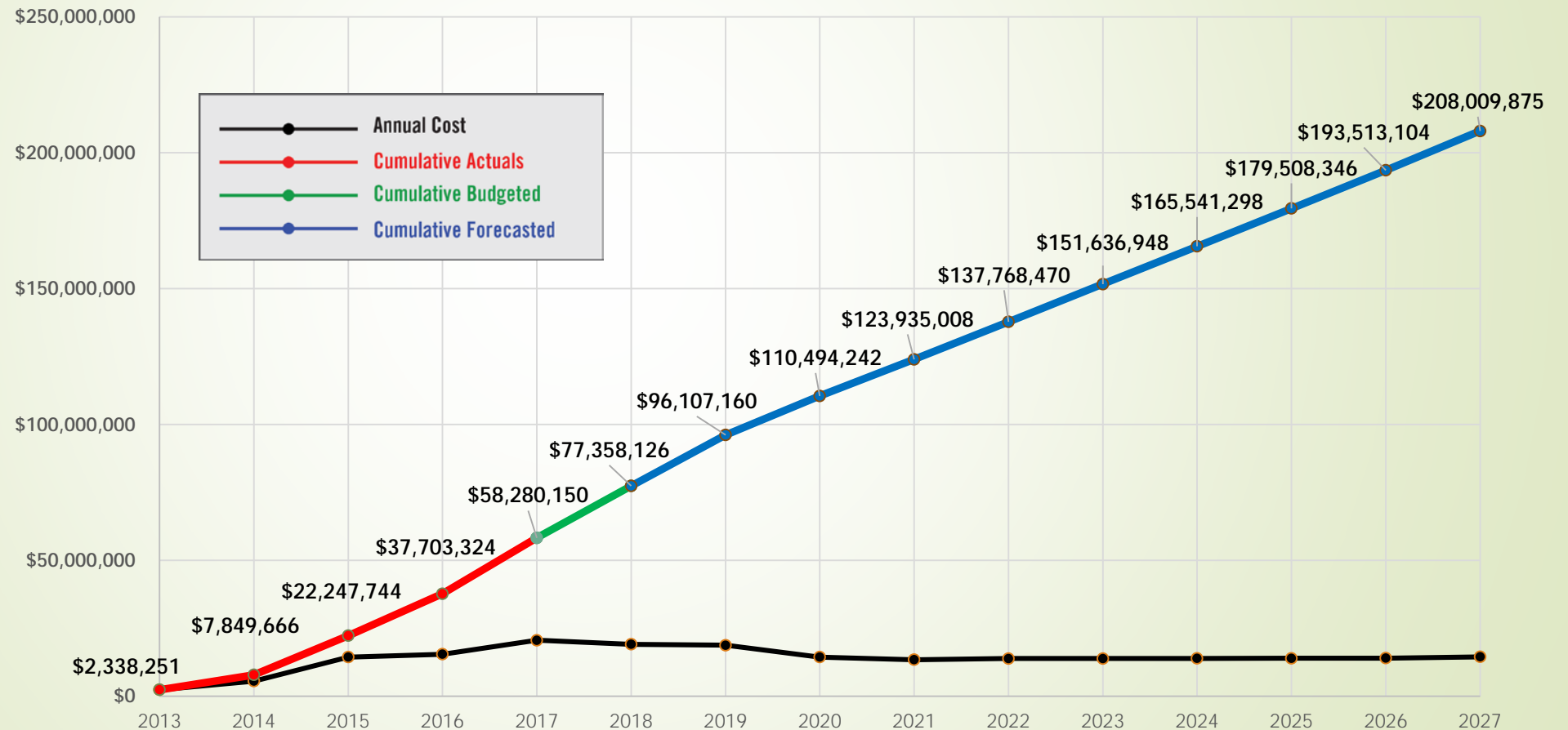


Edwards Aquifer Authority 7.1A Budget as Compared to Table 7.1

EAHCP Measure	2012-2027 7.1	2012-2027 7.1A	Δ Between 7.1 and 7.1A
ASR - Obtaining Leases & Options	\$71,385,000	\$59,656,375	\$11,728,625
ASR - O&M	\$32,910,000	\$24,633,940	\$8,276,060
Regional Water Conservation	\$19,730,000	\$19,066,936	\$663,064
VISPO	\$62,580,000	\$55,995,700	\$6,584,300
Biological Monitoring	\$6,000,000	\$6,067,531	(\$67,531)
Water Quality Monitoring	\$3,000,000	\$3,691,406	(\$691,406)
Ecological Modeling	\$1,150,000	\$1,151,964	(\$1,964)
Applied Research (Research & Facility)	\$4,750,000	\$3,110,610	\$1,639,390
Refugia	\$25,178,955	\$20,303,521	\$4,875,434
Program Management	\$11,250,000	\$12,943,574	(\$1,693,574)
Science Review Panel	\$550,000	\$1,388,319	(\$838,319)
Program Total	\$238,483,955	\$208,009,875	\$30,474,080

As of April 7, 2017

EDWARDS AQUIFER AUTHORITY | \$ACTUALS AND \$7.1A AMOUNTS



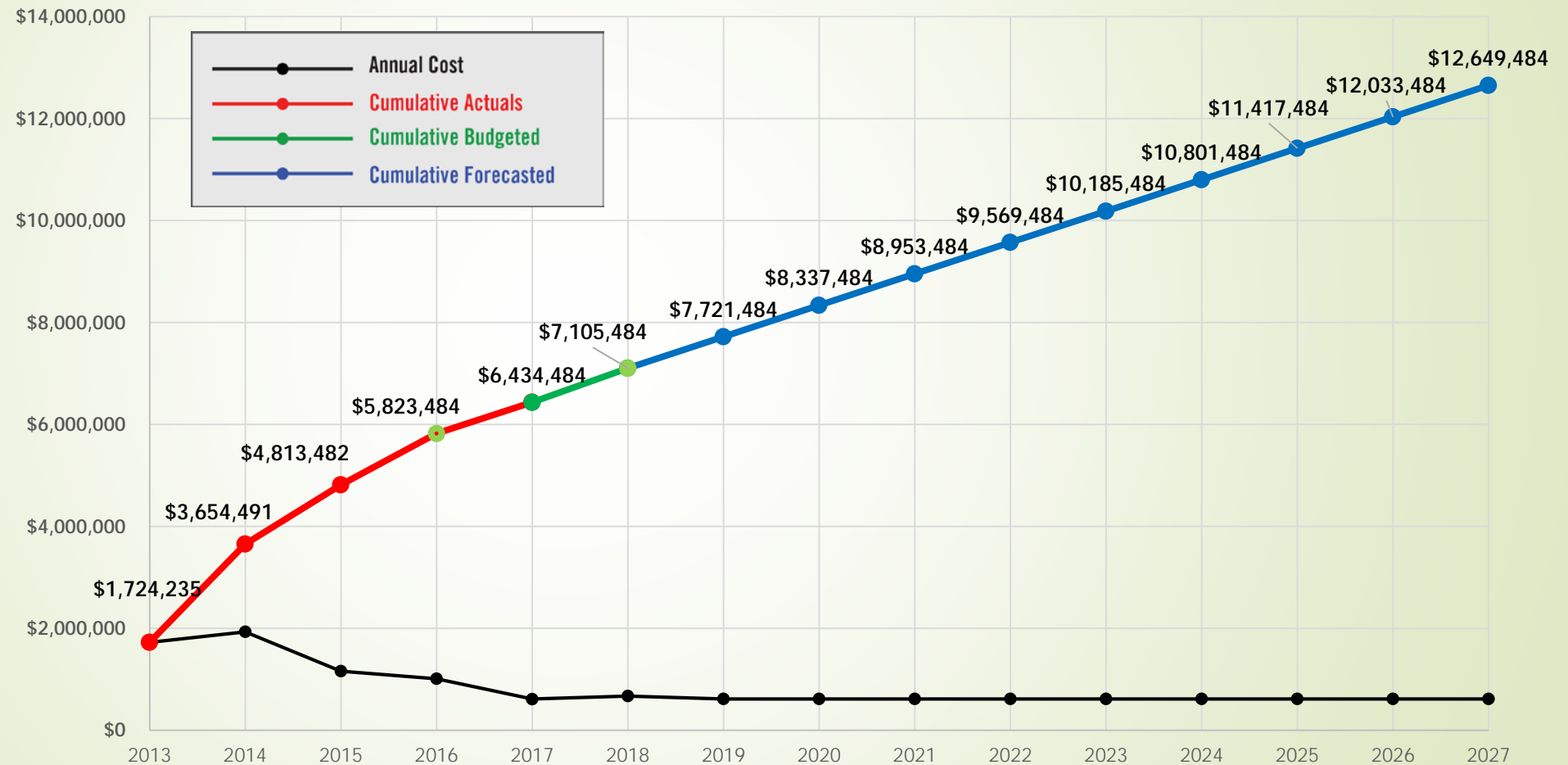
As of April 7, 2017

City of San Marcos/Texas State University 7.1A Budget as Compared to Table 7.1

EAHCP Measure	2012-2027 7.1	2012-2027 7.1A	Δ Between 7.1 and 7.1A
Texas Wild Rice Enhancement/Restoration	\$1,850,000	\$1,847,549	\$2,451
Sediment Removal	\$850,000	\$1,019,292	(\$169,292)
Non-Native Plant Species Control	\$1,375,000	\$1,692,842	(\$317,842)
Management - Floating Vegetation Mats & Litter	\$1,200,000	\$1,039,402	\$160,598
Non-Native Animal Species Control	\$525,000	\$488,660	\$36,340
Bank Stabilization/Permanent Access Points	\$780,000	\$1,354,013	(\$574,013)
Native Riparian Habitat Restoration	\$380,000	\$667,045	(\$287,045)
Management - Key Recreation Areas	\$784,000	\$849,539	(\$65,539)
LID/BMP Management	\$3,600,000	\$3,160,636	\$439,364
Household Hazardous Waste Management	\$450,000	\$415,158	\$34,842
Sessom Creek Sand Bar	\$100,000	\$100,000	\$0
Education	\$0	\$15,349	(\$15,349)
Program Total	\$11,894,000	\$12,649,484	(\$755,484)

As of April 7, 2017

SAN MARCOS/TEXAS STATE | \$ ACTUALS AND 7.1A AMOUNTS



City of New Braunfels 7.1A Budget as Compared to Table 7.1

EAHCP Measure	2012-2027 7.1	2012-2027 7.1A	Δ Between 7.1 and 7.1A
Old Channel Restoration	\$2,000,000	\$1,959,051	\$40,949
Flow split management	\$270,000	\$423,277	(\$153,277)
Aquatic vegetation restoration	\$1,245,000	\$1,221,688	\$23,312
Non-native animal species control	\$1,245,000	\$1,143,908	\$101,092
Decaying vegetation removal	\$960,000	\$435,570	\$524,430
Riparian improvement - riffle beetle	\$525,000	\$523,544	\$1,456
Gill parasite control	\$1,325,000	\$1,184,886	\$140,114
Restoration of riparian zones ("Bank stabilization")	\$1,600,000	\$2,090,655	(\$490,655)
Prohibition of hazardous material routes	\$10,000	\$0	\$10,000
Incentive program for LID/BMP stormwater management	\$1,900,000	\$1,483,411	\$416,589
Household hazardous waste program	\$450,000	\$423,871	\$26,129
Management of public recreation use	\$0	\$0	\$0
Litter control and floating vegetation management	\$0	\$139,920	(\$139,920)
Golf Course Management Plan	\$0	\$0	\$0
Education	\$0	\$3,349	(\$3,349)
Program Total	\$11,530,000	\$11,033,131	\$496,869

As of April 7, 2017

CITY OF NEW BRAUNFELS

\$ ACTUALS AND 7.1A AMOUNTS

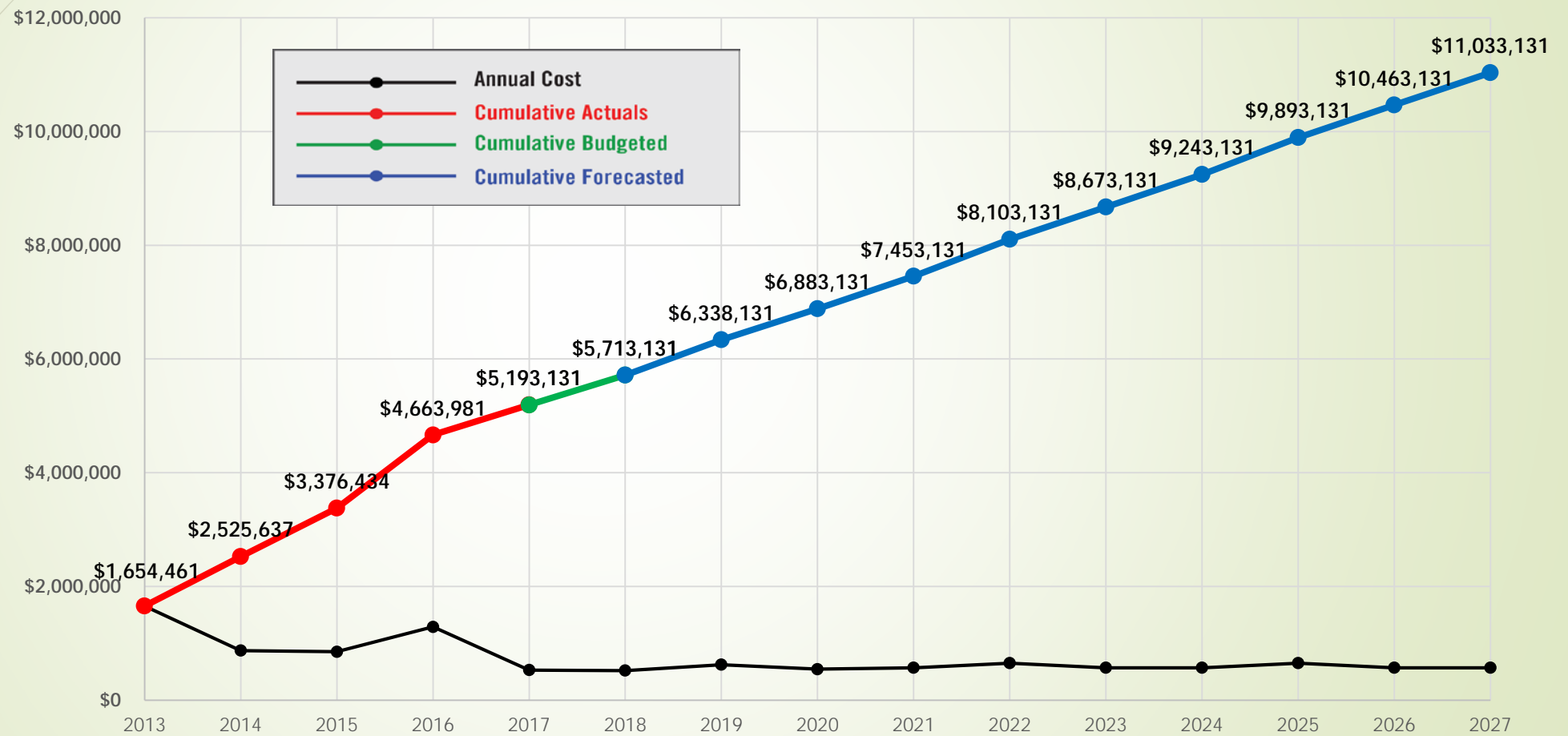
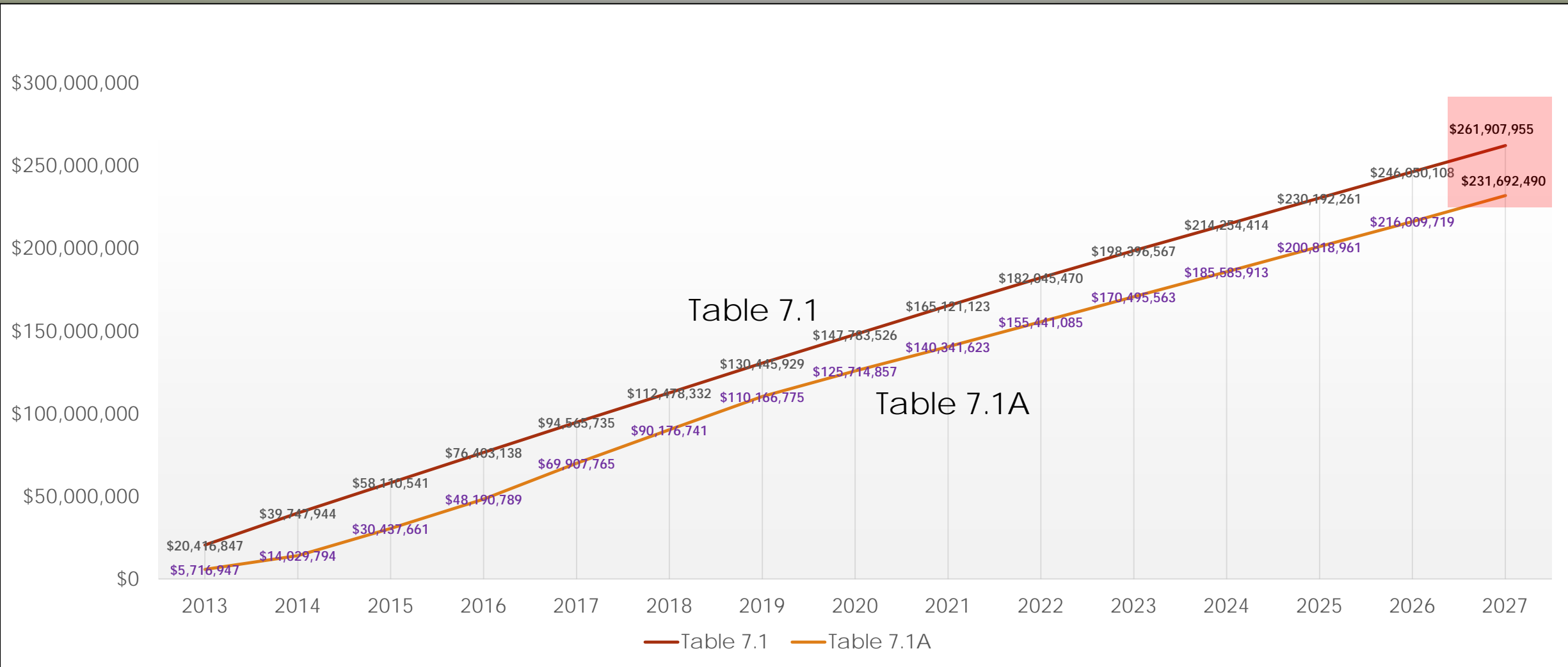


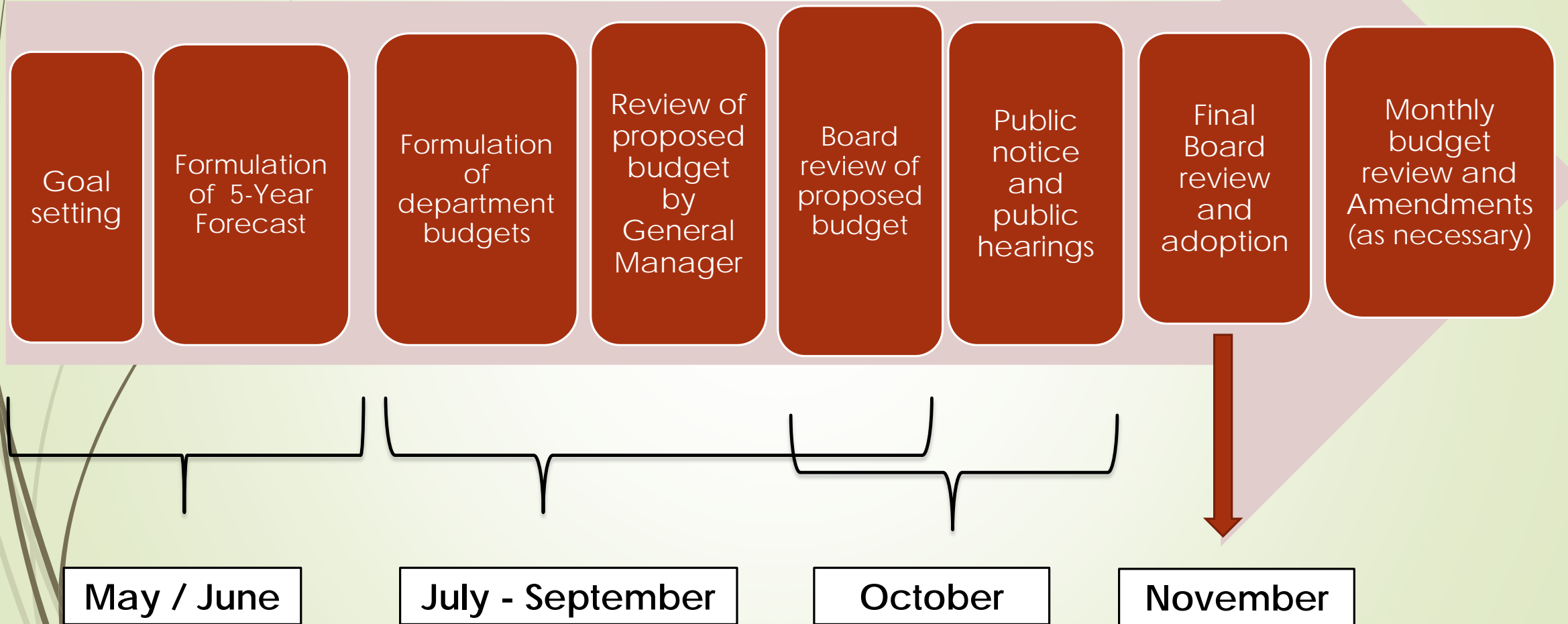
TABLE 7.1 AND TABLE 7.1A COMPARISON



EAA BUDGET PROCESS



EAA Budget Process

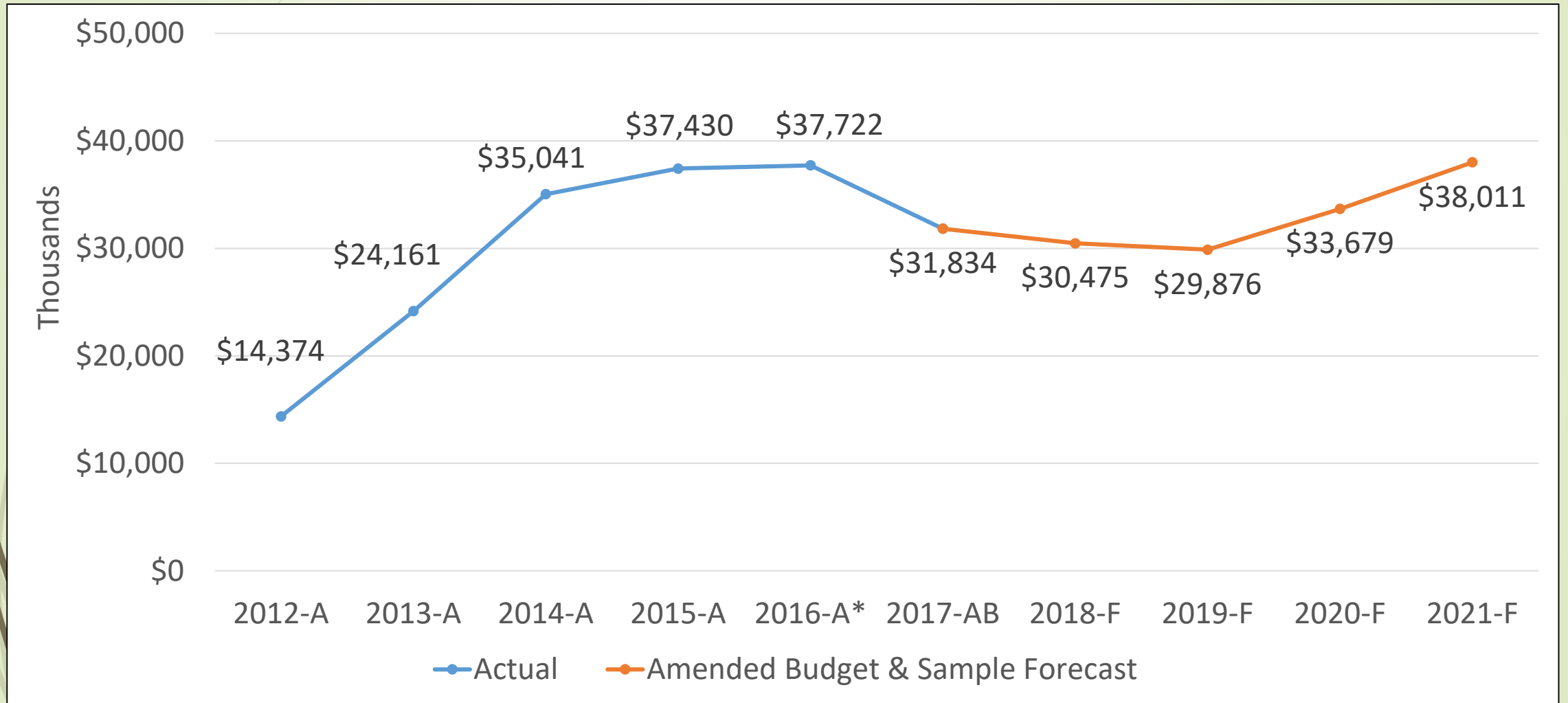


EAHCP RESERVE FUND

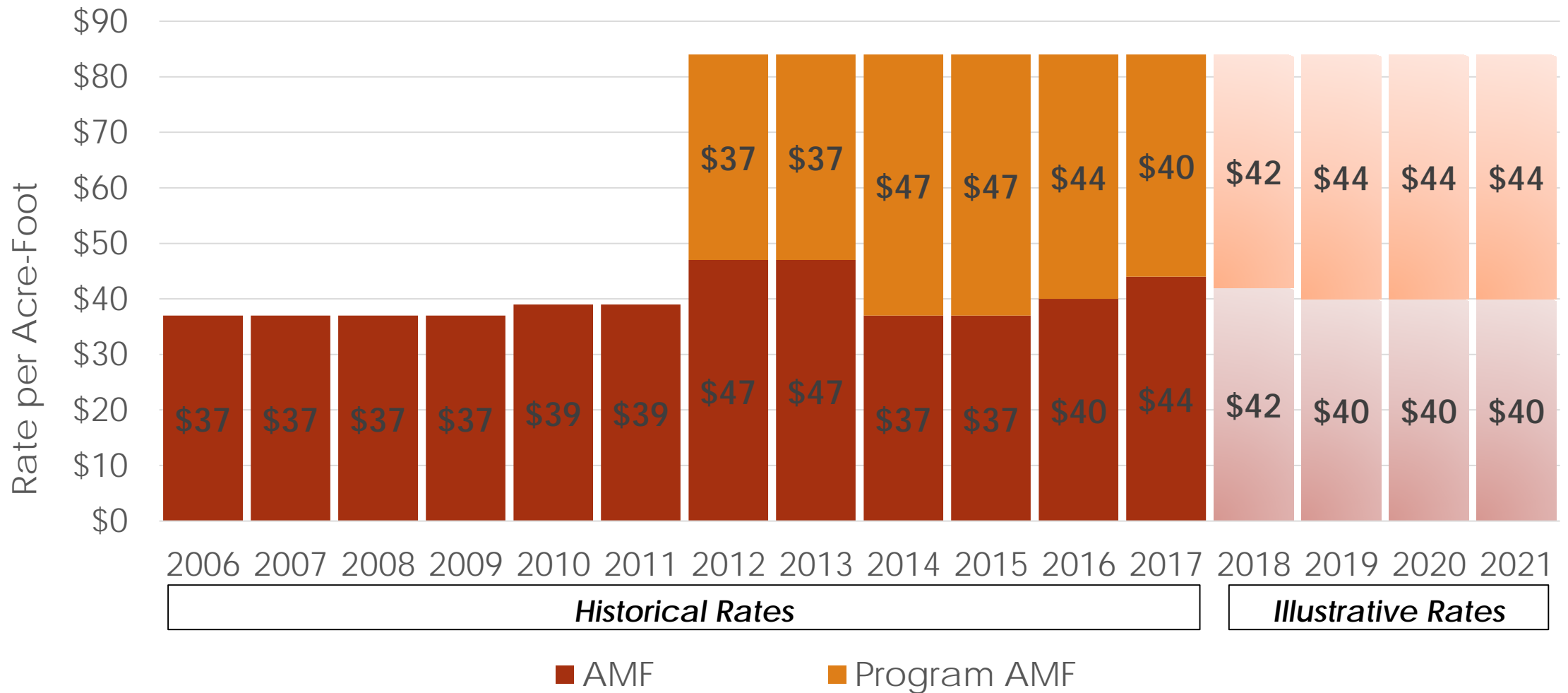
EAA AQUIFER MANAGEMENT FEE



EAHCP Reserve Projections



AMF Rates





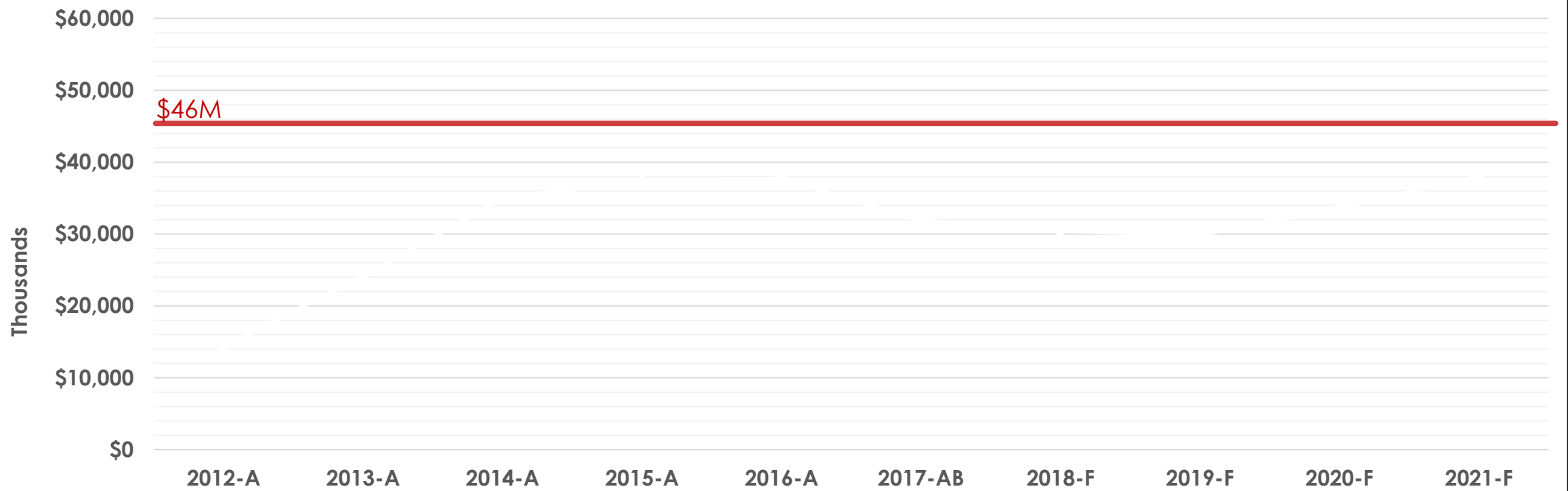
QUESTIONS?



FMA Guidance on HCP Reserve

(EAHCP FMA § 5)

- In recognition that Program Expenditures may be higher in years in which Edwards Aquifer levels are low....
-accumulation by the EAA of a Fund Balance. The accumulated Fund Balance will be capped at \$46 million (Fund Balance Cap)....
- unless amended by the Implementing Committee.



Springflow Protection DOR Expense Calculation

assumptions and criteria are detailed in the workgroup handout 5/11/2017

DOR Year	Year	ASR Mode	ASR Tier 1	ASR Tier 2	ASR Tier 3	ASR O&M	VISPO Trigger	VISPO	Total
1948	1	filling	\$2,333,380	\$2,166,580	\$833,300	\$760,000	standby	\$2,208,835	\$7,542,095
1949	2	filling	\$2,333,380	\$2,166,580	\$833,300	\$798,000	standby	\$2,208,835	\$7,542,095
1950	3	recovery	\$2,333,380	\$2,166,580	\$2,166,580	\$44,800	triggered	\$8,835,339	\$15,501,879
1951	4	recovery	\$2,333,380	\$2,166,580	\$833,300	\$268,800	triggered	\$8,835,339	\$14,168,599
1952	5	recovery	\$2,333,380	\$2,166,580	\$2,166,580	\$940,000	triggered	\$8,835,339	\$15,501,879
1953	6	recovery	\$2,333,380	\$2,166,580	\$2,166,580	\$627,200	triggered	\$8,835,339	\$15,501,879
1954	7	recovery	\$2,333,380	\$2,166,580	\$2,166,580	\$1,646,400	triggered	\$8,835,339	\$15,501,879
1955	8	recovery	\$2,333,380	\$2,166,580	\$2,166,580	\$3,348,800	triggered	\$8,835,339	\$15,501,879
1956	9	recovery	\$2,333,380	\$2,166,580	\$2,166,580	\$5,152,200	triggered	\$8,835,339	\$17,059,879
1957	10	recovery	\$2,333,380	\$2,166,580	\$2,166,580	\$2,083,200	triggered	\$8,835,339	\$29,613,879

Total Springflow DOR Expenditure = \$153,435,942

EAHCP DOR Revenue Collection

as set per Table 7.1

ASR \$	ASR O/M \$	VISPO \$		Total
\$4,759,000	\$2,194,000	\$4,172,000		\$11,125,000
\$4,759,000	\$2,194,000	\$4,172,000		\$11,125,000
\$4,759,000	\$2,194,000	\$4,172,000		\$11,125,000
\$4,759,000	\$2,194,000	\$4,172,000		\$11,125,000
\$4,759,000	\$2,194,000	\$4,172,000		\$11,125,000
\$4,759,000	\$2,194,000	\$4,172,000		\$11,125,000
\$4,759,000	\$2,194,000	\$4,172,000		\$11,125,000
\$4,759,000	\$2,194,000	\$4,172,000		\$11,125,000
\$4,759,000	\$2,194,000	\$4,172,000		\$11,125,000
\$4,759,000	\$2,194,000	\$4,172,000		\$11,125,000

Total DOR Revenue Collection = \$111,250,000



EAHCP Funding Requirement for DOR

assumptions and criteria are detailed in the workgroup handout 5/11/2017

DOR Revenue Collection =	\$111,250,000
Springflow Protection DOR Expenditure =	\$153,435,942
DOR Funding Requirement =	\$42,185,942



EARIP Calculation of EAHCP Reserve

- Quote from Original EARIP Presentation

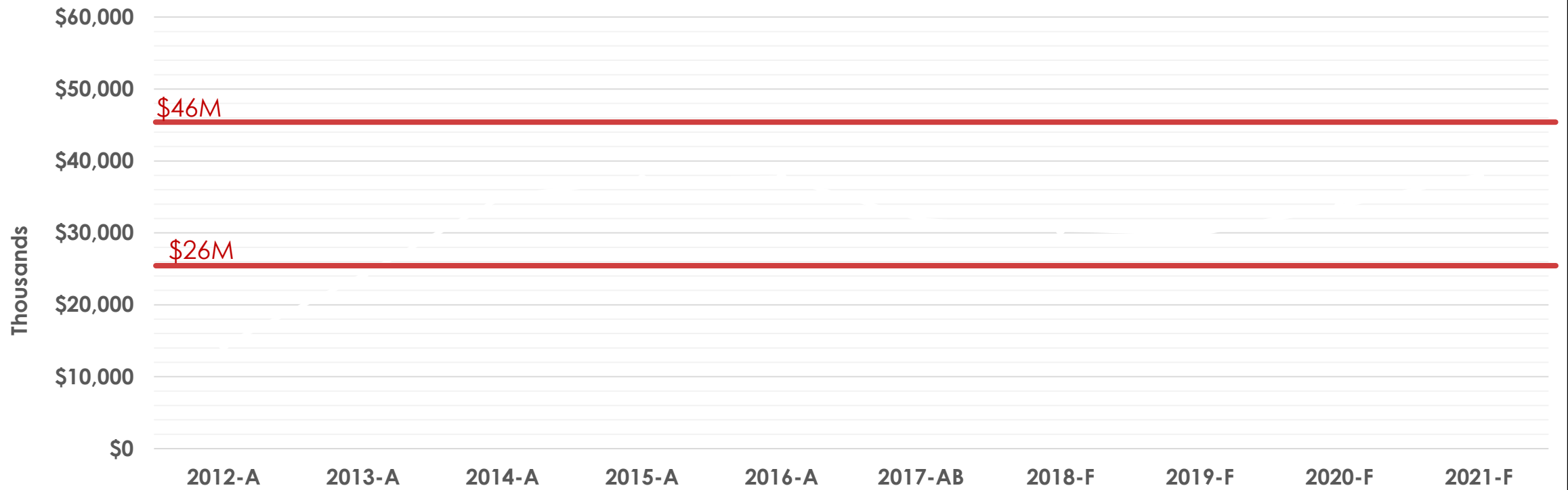
“Designed to ensure adequate funding of annual operating costs and minimize fluctuation in EAA/HCP fee during Drought of Record (DOR)”

- EARIP established EAHCP Reserve Cap = \$46 million

EARIP Calculation of EAHCP Reserve

(approved by consensus of EARIP)

■ Operating Reserve	\$20 million	
■ One year of operating cost		
■ Most costs will be paid at beginning of year		
■ ASR Operations	\$10 million	} \$26 million
■ Amount to cover SAWS production costs during 4 worst years of the DOR in excess of budgeted amounts		
■ VISPO	\$16 million	} \$26 million
■ Amount to cover 4 years of full VISPO payments (\$200/ac.ft.) in excess of budgeted amounts		
■ Total HCP Fund Balance Cap	\$46 million	



EAHCP Reserve Discussion

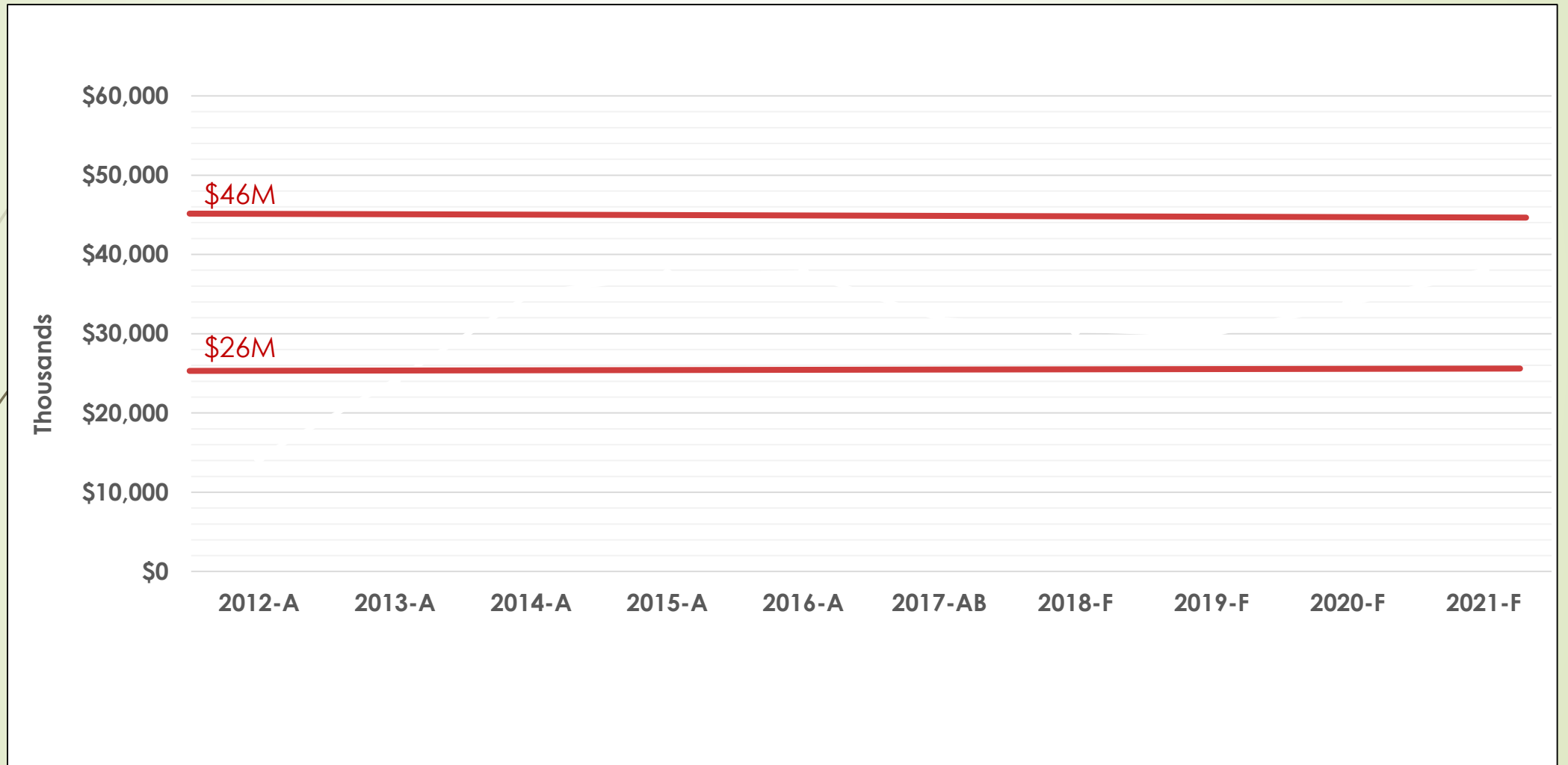
- FMA caps the reserve at \$46 million
 - EARIP did not calculate the reserve cap based on the 10 yr DOR
 - EARIP calculated the reserve cap based on 4 yr DOR and operating expenses
- FMA does not establish any reserve minimum
- Currently the EAHCP Reserve is \approx \$30 million
- The Reserve has been impacted (2012-2017):
 1. VISPO triggered
 2. Refugia front loaded payments
 3. NAS authorized expense
 4. Regional Conservation front loaded payments



Impacts to the Reserve Fund

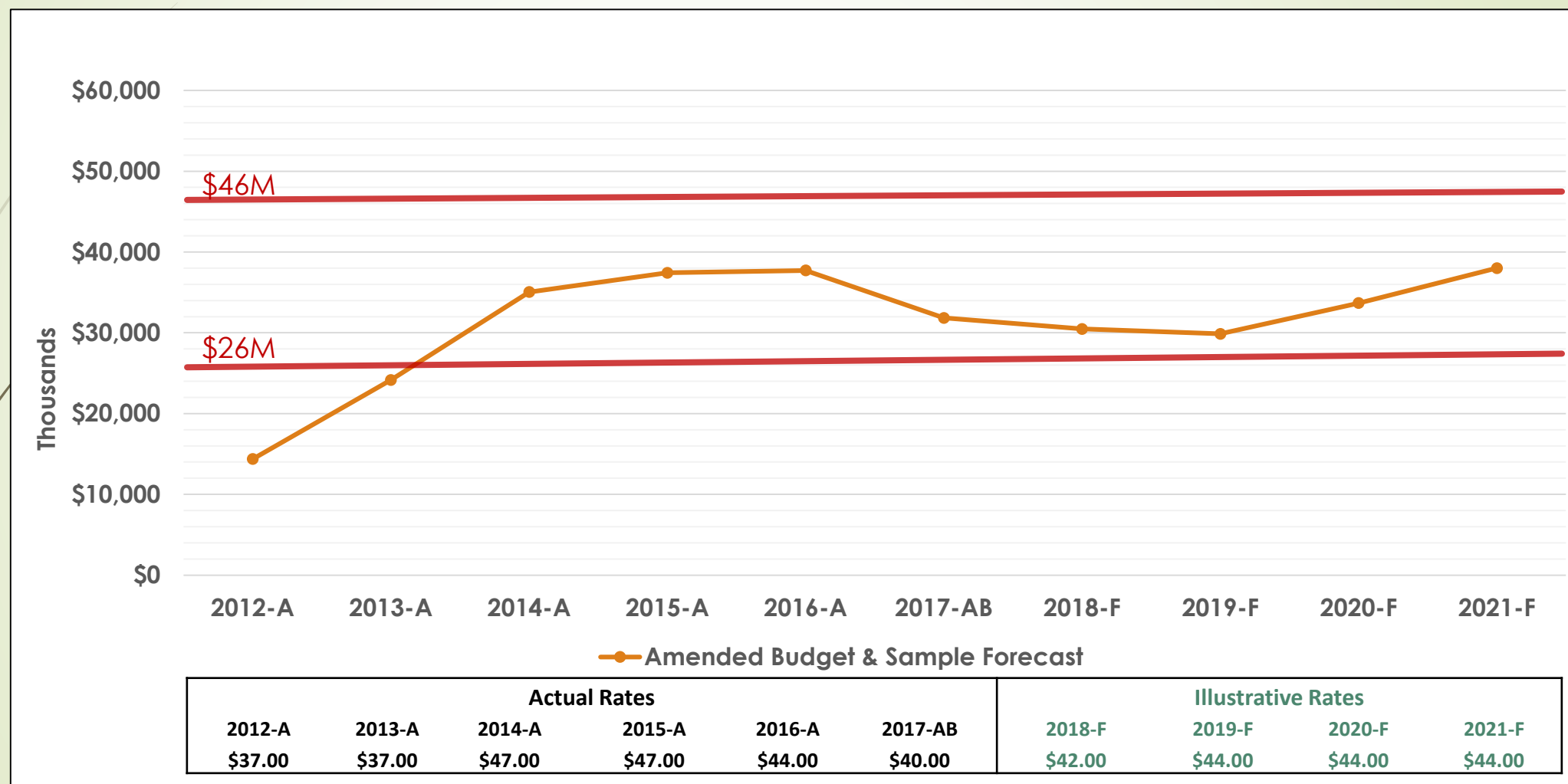
- VISPO Payouts
- Refugia and Regional Water Conservation Programs

Reserve Impacts



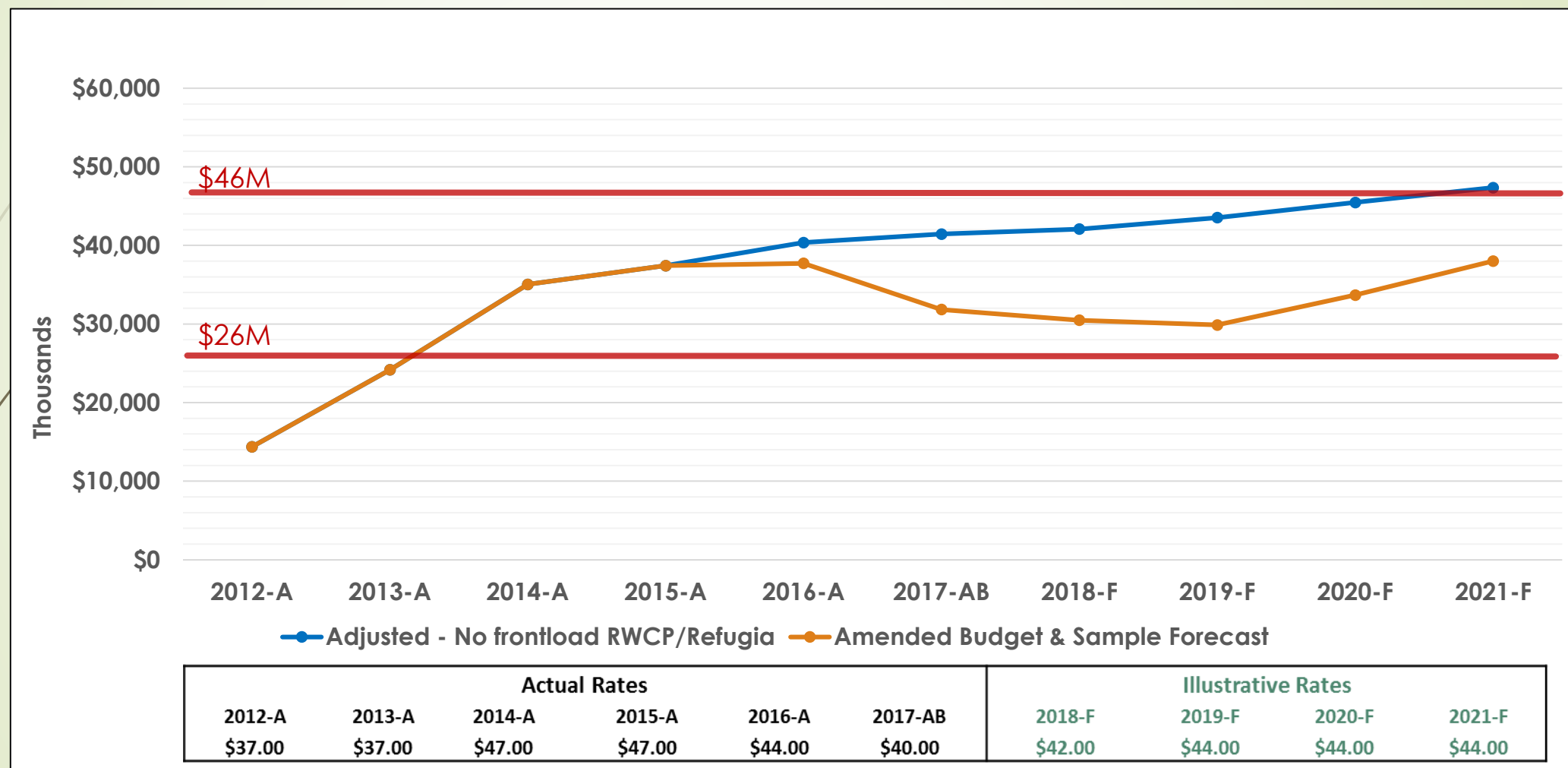
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Reserve Impacts: RWCP/Refugia Frontloading and VISPO Forbearance



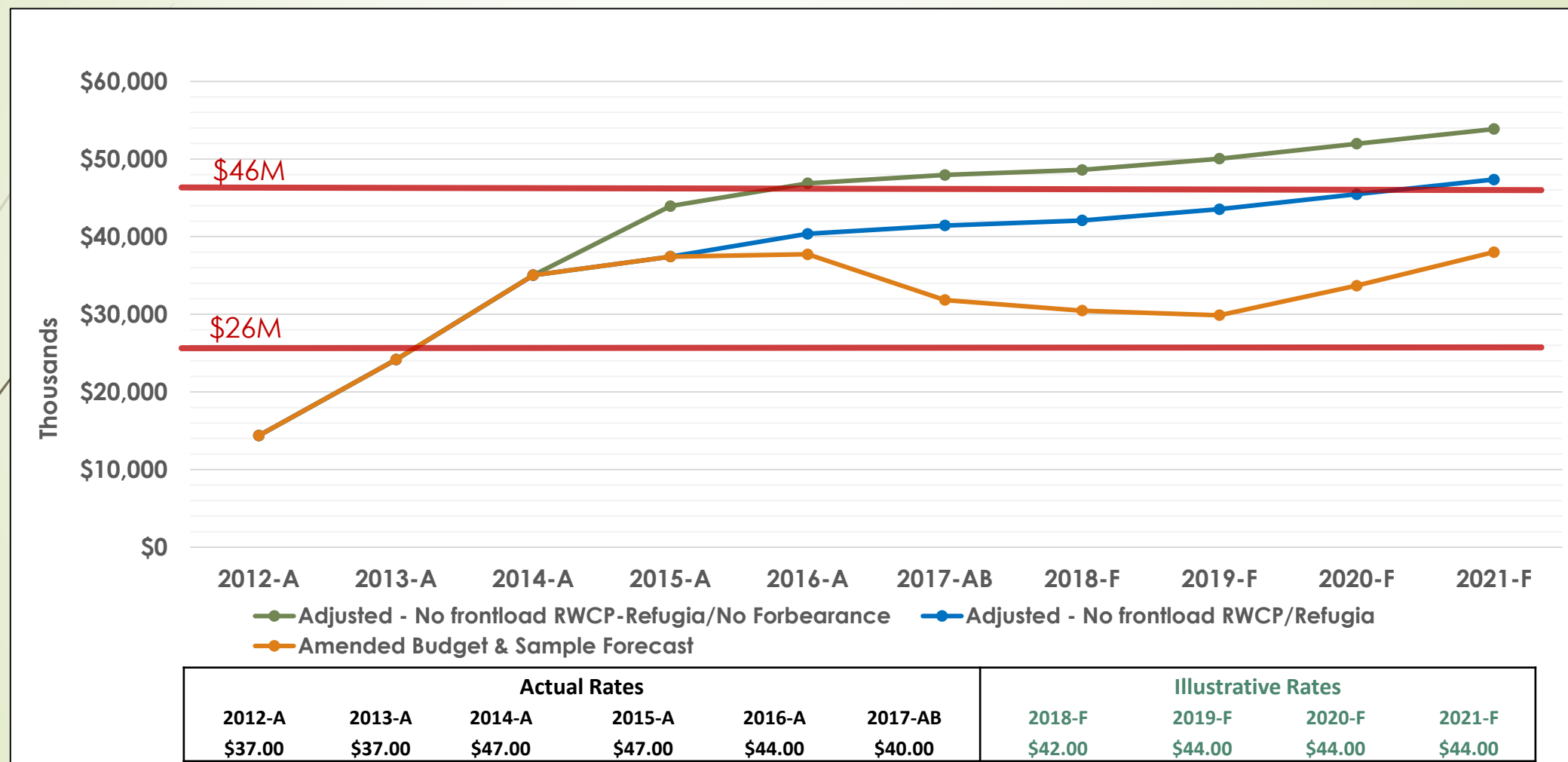
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Reserve Impacts: No Frontloading of RWCP/Refugia



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Reserve Impacts: No Frontloading of RWCP/Refugia or VISPO Forbearance



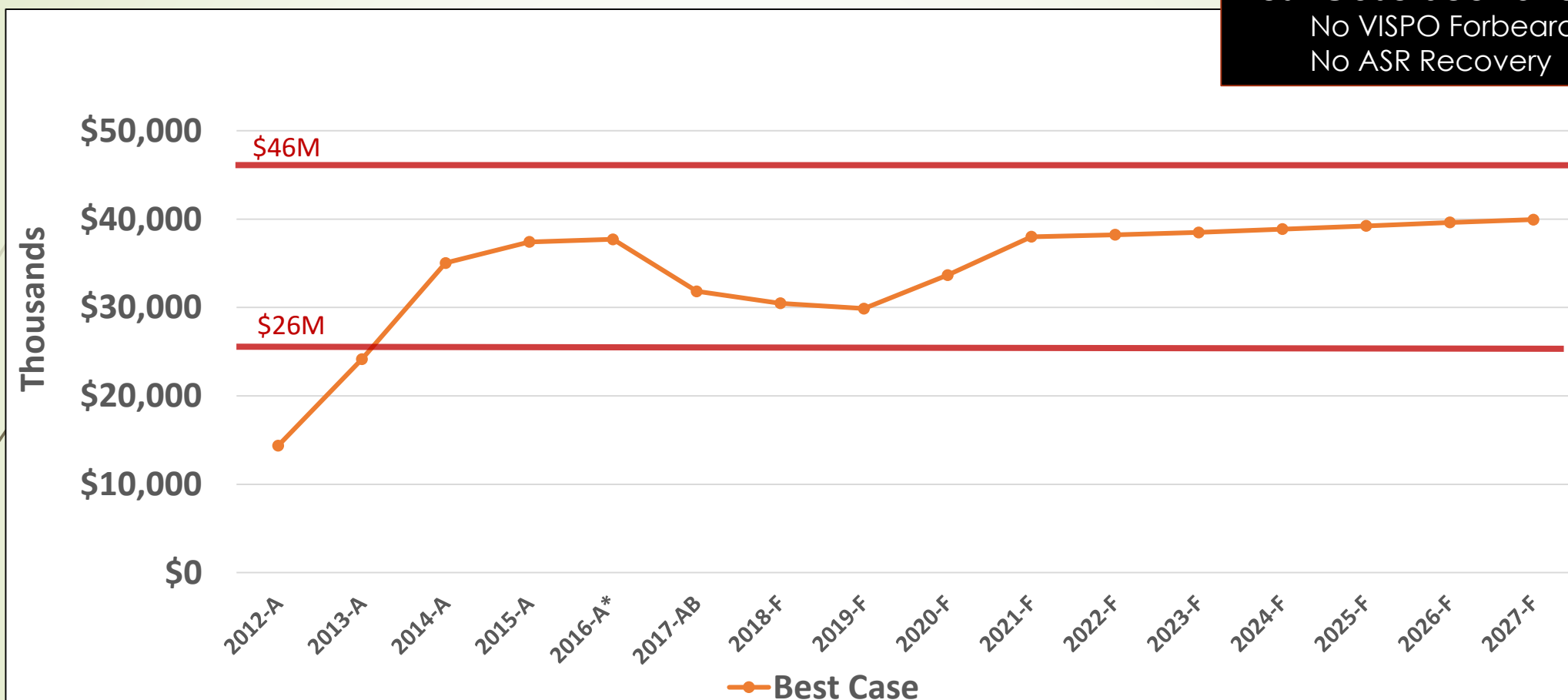
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EAHCP DROUGHT SCENARIO IMPACTS



HCP Reserve Forecast: Drought Scenario Impacts

Best Case Scenario:
No VISPO Forbearance
No ASR Recovery

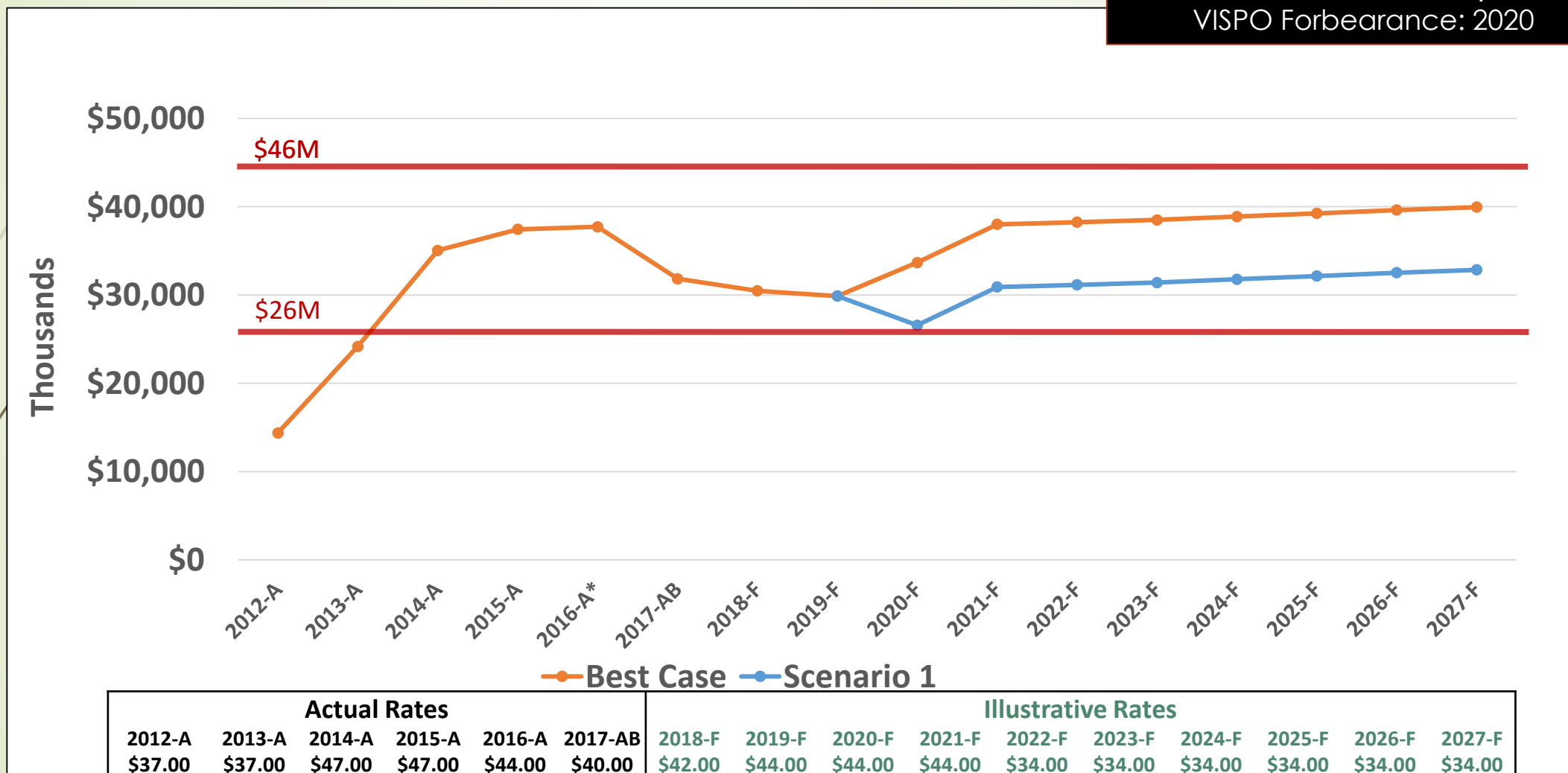


Actual Rates						Illustrative Rates									
2012-A	2013-A	2014-A	2015-A	2016-A	2017-AB	2018-F	2019-F	2020-F	2021-F	2022-F	2023-F	2024-F	2025-F	2026-F	2027-F
\$37.00	\$37.00	\$47.00	\$47.00	\$44.00	\$40.00	\$42.00	\$44.00	\$44.00	\$44.00	\$34.00	\$34.00	\$34.00	\$34.00	\$34.00	\$34.00

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HCP Reserve Forecast: Drought Scenario Impacts

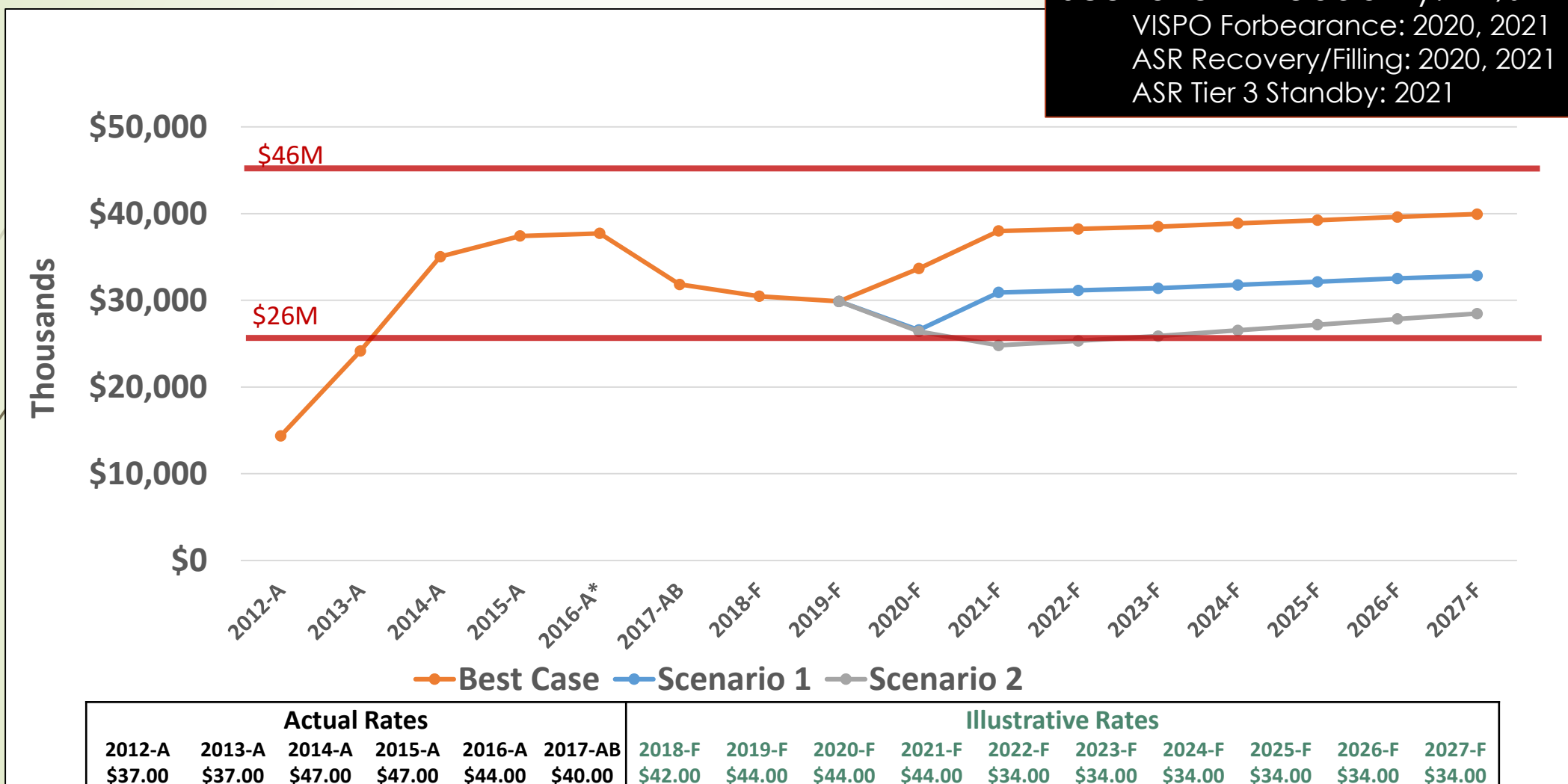
Scenario 1 Probability: 50%
VISPO Forbearance: 2020



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HCP Reserve Forecast: Drought Scenario Impacts

Scenario 2 Probability: 14%
 VISPO Forbearance: 2020, 2021
 ASR Recovery/Filling: 2020, 2021
 ASR Tier 3 Standby: 2021



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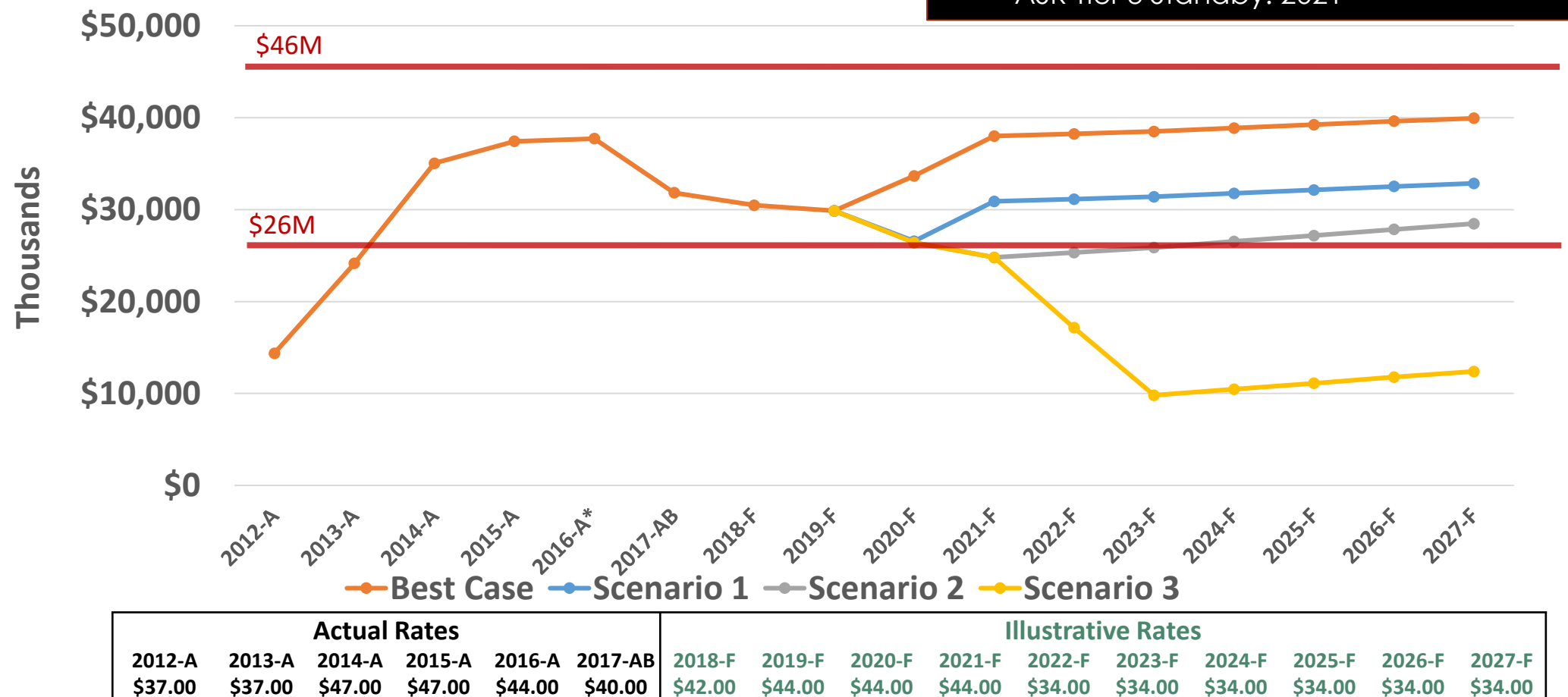
HCP Reserve Forecast: Drought Scenario Impacts

Scenario 3 Probability: 0.2%

VISPO Forbearance: 2020, 2021, 2022, 2023

ASR Recovery/Filling: 2020, 2021, 2022, 2023

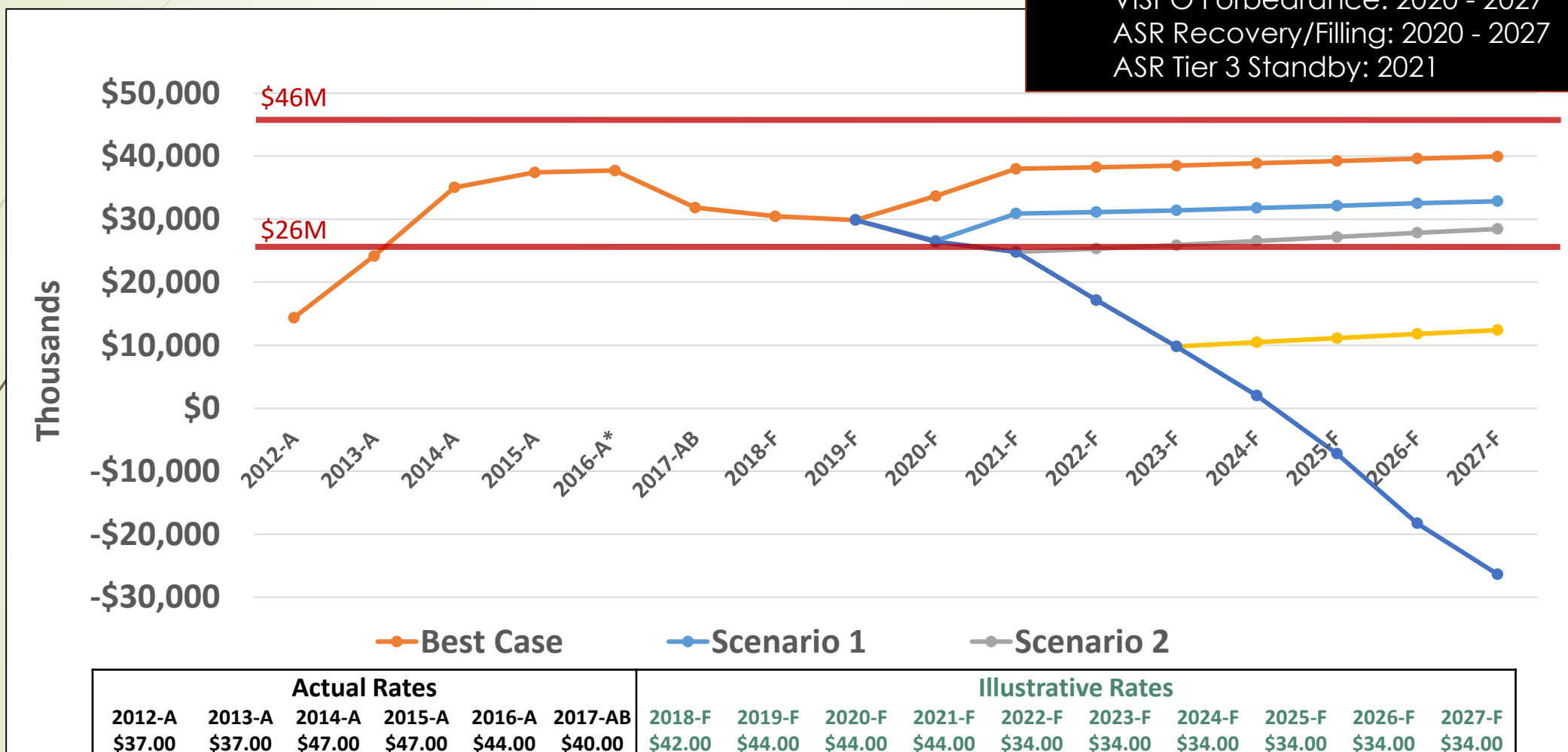
ASR Tier 3 Standby: 2021



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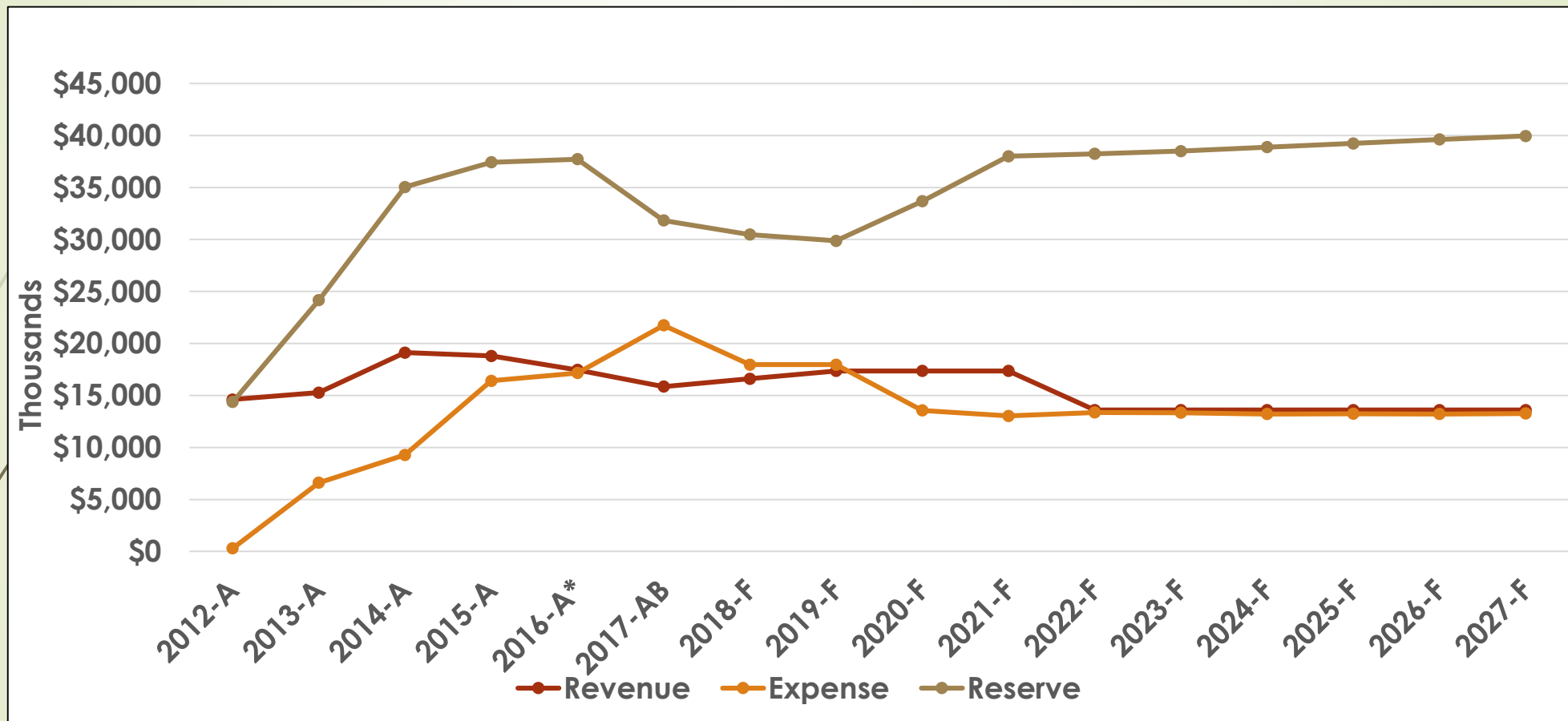
HCP Reserve Forecast: Drought Scenario Impacts

Scenario 4 Probability: <0.2%
 VISPO Forbearance: 2020 - 2027
 ASR Recovery/Filling: 2020 - 2027
 ASR Tier 3 Standby: 2021



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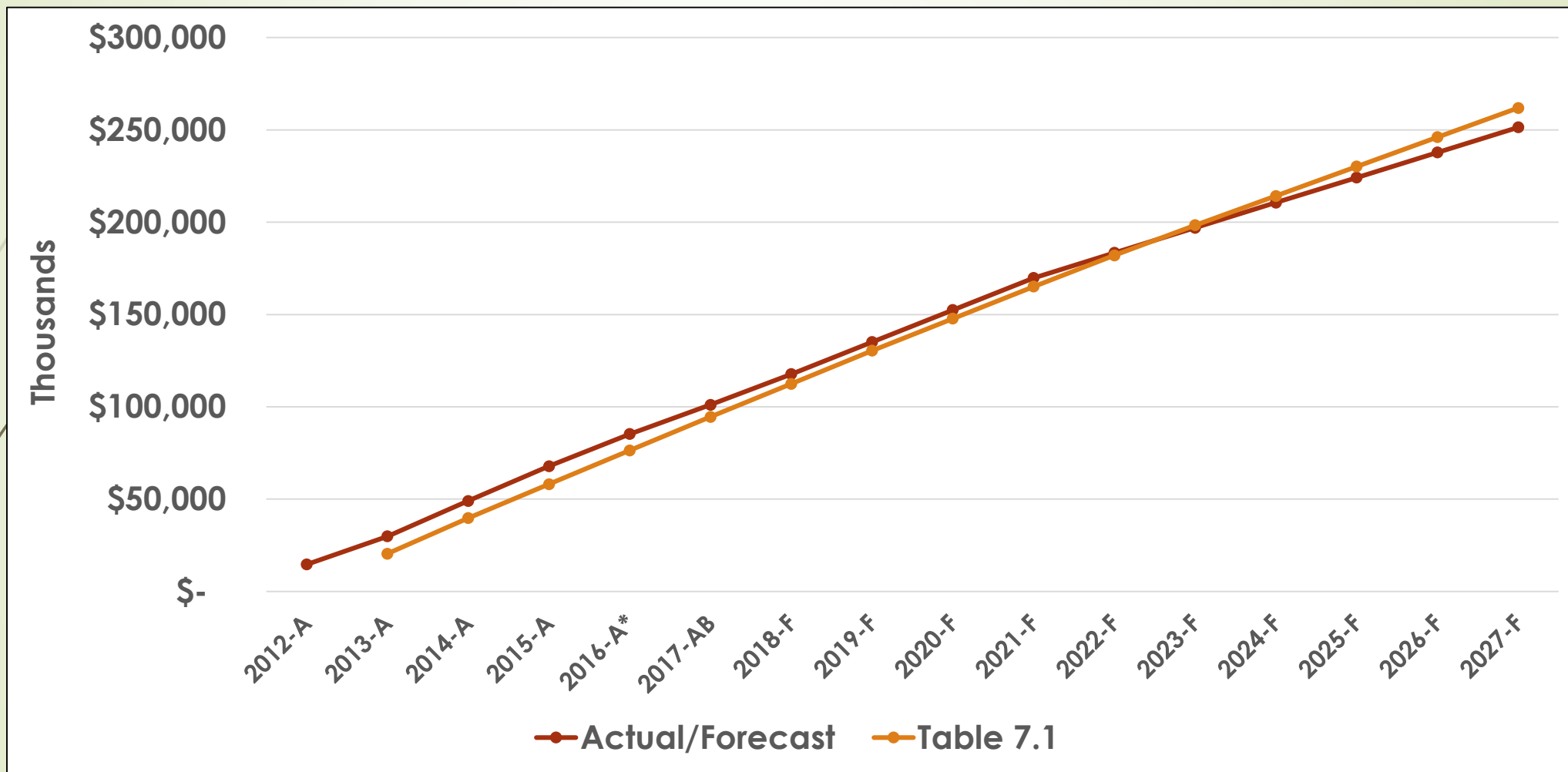
HCP: Actual/Forecast 2012 - 2012



Actual Rates						Illustrative Rates									
2012-A	2013-A	2014-A	2015-A	2016-A	2017-AB	2018-F	2019-F	2020-F	2021-F	2022-F	2023-F	2024-F	2025-F	2026-F	2027-F
\$37.00	\$37.00	\$47.00	\$47.00	\$44.00	\$40.00	\$42.00	\$44.00	\$44.00	\$44.00	\$34.00	\$34.00	\$34.00	\$34.00	\$34.00	\$34.00

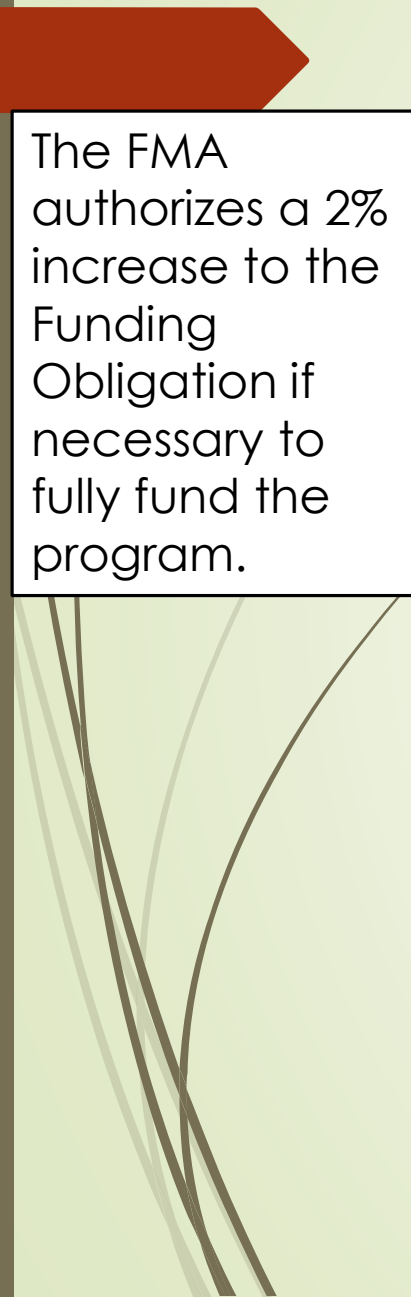
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HCP Cumulative Revenues



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Discussion of the 2% Escalator of Table 7.1 Conservation Measure Amounts



The FMA authorizes a 2% increase to the Funding Obligation if necessary to fully fund the program.

Section 3.2. Each Party's Individual Duties and Responsibilities.

Each Party has sole responsibility for: (a) undertaking and performing each of the specific Conservation Measures assigned to that Party in Chapter 5 of the HCP; (b) if the Party determines to issue Certificates of Inclusion as provided in Section 9.2 of the Implementing Agreement, taking action as may be appropriate for such issuance and monitoring and enforcing the terms of any Certificate of Inclusion issued; (c) undertaking and performing each additional duty and responsibility that may be assigned to that Party as a result of decisions made under the AMP; and (d) complying with the terms of this Agreement to implement the Program. **Subject to the limitations to the 2% annual increase from the 2013 Annual Funding Obligation as provided in Subsection 5.2.1, the EAA has responsibility for fully funding implementation of the Program, as the Program may be adjusted pursuant to the AMP.**

Section 5.2. Annual Funding Obligation of the EAA.

5.2.1. Level of Funding.

The 2% increase is to be compounded annually.


Any excesses resulting from the 2% increase will be applied to future years.

The EAA will provide funding for the costs of implementing the Program during each year of Phase I and Phase II (Annual Funding Obligation) in accordance with each Annual Program Budget approved by the Implementing Committee and the EAA Board. As long as adequate to implement the Program, the Annual Funding Obligation for 2013 will be at the amount indicated for 2013 in Table 7-1 of the HCP. The Annual Funding Obligation for 2014, and each Program year thereafter, may be increased or decreased from the Annual Funding Obligation for 2013 based on the Annual Program Budget developed for the year in accordance with Article Four. The Annual Funding Obligation for any Program year will be limited to the 2013 Annual Funding Obligation, adjusted for a 2% increase, compounded annually for the years that have elapsed since 2013. The EAA will ensure that any funds collected or received for the Program that are in excess of Program Expenditures during any year and result in a Fund Balance, as provided in Subsection 5.5.4, will be applied to Program Expenditures in subsequent years, subject to the provisions of Subsection 5.5.4.

Program Totals -

Entity	Table 7.1a Projected Program Totals	Table 7.1 Program Totals	Escalated Table 7.1 Program Totals*
Edwards Aquifer Authority	\$ 208,382,466	\$ 238,483,955	\$ 256,131,725
City of San Marcos- Texas State University	\$ 12,649,485	\$ 11,894,000	\$ 12,613,928
City of New Braunfels	\$ 11,033,131	\$ 11,530,000	\$ 12,221,461
Program Totals	\$ 232,065,082	\$ 261,907,955	\$ 280,967,114

2% Compounded annually and applied to all Conservation Measures
 * beginning in 2018



Estimated Increase to the AMF to Pay for Escalated Costs

Table 7.1 Program Totals = \$261,907,955

Table 7.1 Escalated Totals = \$280,967,114

Difference = \$19,059,159

Average increase needed to make up the difference
= ~\$5.06/AF/year for the remainder of the ITP

APPENDIX C
MEETING AGENDAS



NOTICE OF OPEN MEETING
Available at eahcp.org

As requested by the EAHCP Implementing Committee, the **2017 EAHCP Budget Work Group** has been formed to review the EAHCP budget process and make recommendations to the Implementing Committee regarding any directional changes that ensure a good stewardship of public dollars. A meeting of this Work Group is scheduled for **Friday, April 7, 2017, at 9 a.m. at the New Braunfels City Hall (Tejas Room), 550 Landa Street, New Braunfels, TX 78130.** Work Group members are asked to please RSVP to cabernathy@edwardsaquifer.org.

Members of this Work Group include: Tom Taggart (City of San Marcos) as acting Chair, Brock Curry (EAA), Steve Raabe (SARA), Myron Hess (National Wildlife Federation), Mary Bailey (SAWS), and a Member-at-Large (vacant).

At this meeting, the following business may be considered and recommended for Work Group action:

1. Call to order and attendee introductions.
Purpose: Introduce members, review the Work Group Charge, and entertain any discussion.
Action: No action required.
2. Nominate and potentially appoint a Member-at-Large.
Purpose: To identify candidates for the Member-at-Large vacancy.
Action: Nominate and appoint work group member.
3. Presentation and discussion of the Funding and Management Agreement of the EAHCP.
Purpose: To provide an overview and discuss the FMA requirements as it pertains to the HCP budget process.
Action: No action required.
Attachments: The Funding and Management Agreement
4. Presentation and discussion of the EAHCP budget.
Purpose: To present and discuss the EAHCP budget amounts, total expenditures, and unspent funds for each Conservation Measure by Permittee.
Action: No action required.
5. Presentation and overview of the EAA Budget process.
Purpose: To inform Work Group of the EAA budgeting process, policy, and timeline.

Action: No action required.

6. Presentation and discussion of the EAA Aquifer Management Fee (AMF) and the EAHCP Reserve Fund.

Purpose: To present and discuss the history of the AMF, the projection of the Reserve Fund, and projections moving forward.

Action: No action required.

7. Discuss future agenda items.
8. Consider future meetings, dates, and locations.
9. Questions and comments from the public.
10. Adjourn.



NOTICE OF OPEN MEETING
Available at eahcp.org

As requested by the EAHCP Implementing Committee, the **2017 EAHCP Budget Work Group** has been formed to review the EAHCP budget process and make recommendations to the Implementing Committee regarding any directional changes that ensure a good stewardship of public dollars. A meeting of this Work Group is scheduled for **Thursday, May 11, 2017 at 9:00 at the San Marcos Activity Center (Multipurpose Room), 501 E. Hopkins, San Marcos, TX.** Work Group members are asked to please RSVP to cabernathy@edwardsaquifer.org.

Members of this Work Group include: Tom Taggart (City of San Marcos) as acting Chair, Brock Curry (EAA), Steve Raabe (SARA), Myron Hess (National Wildlife Federation), Mary Bailey (SAWS), and Adam Yablonski (Member-at-Large).

At this meeting, the following business may be considered and recommended for Work Group action:

4. Call to order - Establish that all members are present or represented
5. Approval of minutes from the April 7, 2017 meeting (Attachment 1)
6. Receive report from the Program Manager on general topics related to the operation of the Budget Work Group
 - a. Discussion of Table 7.1a
7. Nominate and appoint a Member-at-Large.

Purpose: To allow the committee to discuss and vote on the nomination of Adam Yablonski as the Member-at-Large.

Action: Nominate and appoint Adam Yablonski as the Member-at-Large.
8. Presentation and discussion of Calculation of the Drought of Record (DoR) Projected Expenses and; the Calculation Used to Determine \$46 Million Reserve Cap

Purpose: To provide an overview and discussion on the methodology used to project costs of the HCP program during a DoR. Members will also discuss the methodology used calculate the \$46 million reserve cap described in the FMA.

Action: No action required.
9. 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.

Purpose: To provide an overview and discussion regarding the impacts the initial expenses have had on the accumulation of the reserve since program inception.

Action: No action required.

10. 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.

Purpose: To provide an overview and discuss what the AMF projections may look like throughout the remainder of the term of the ITP.

Action: No action required.

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

Purpose: To provide an overview and discuss what the individual conservation budget projections would be if the 2% escalator were initiated throughout the remainder of the term of the ITP.

Action: No action required

- Table 7.1. Budgets compounded with the 2% escalator

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

Purpose: To allow the Work Group to discuss and consider any possible actions and/or recommendations made to the Implementing Committee based on the information received

Action: To provide a recommended course of action to the Implementing Committee regarding the 2018 HCP Budget and/or its process.

13. Discuss future agenda items.

14. Consider future meetings, dates, and locations.

15. Questions and comments from the public.

16. Adjourn.

APPENDIX D
MEETING MINUTES



MEETING MNUTES

April, 7, 2017

1. Call to order and attendee introductions.

The meeting was called to order at 9:03 a.m. Members present were: Tom Taggart (San Marcos), Brock Curry (EAA), Steve Raabe (SARA), Mary Bailey (SAWS), Myron Hess (National Wildlife Foundation). The Member-at-Large had not been appointed and was not present. The Chair read aloud the Charge of the Work Group and discussed the role of the Workgroup.

2. Nominate and potentially appoint a Member-at-Large.

The Chair discussed the representation of the existing members and mentioned Adam Yablonski as a possible representative for the Member-at-Large position. The Chair reminded the Workgroup of Mr. Yablonski's history and working knowledge of the EAA. The Chair described Mr. Yablonski as "fair minded" and "neutral". Mr. Curry agreed with the Chair and introduced the question "do we need another member?" Mr. Raabe agreed with the Chair and Mr. Hess also agreed and stated that Mr. Yablonski would be a good addition and stated that many perspectives would be a good thing. Ms. Bailey stated that she did not know Mr. Yablonski personally but accepted the statements of the others members regarding Mr. Yablonski's ability to serve on the Workgroup. Discussion followed. The Chair asked Mr. Pence (HCP Program Manager) to contact Mr. Yablonski and ask if he is willing to serve on the Workgroup.

3. Presentation and discussion of the Funding and Management Agreement of the EAHCP.

Mr. Hess discussed the Funding and Management Agreement (FMA) and provided slides summarizing the FMA. Mr. Hess discussed some key definitions: 1) Annual Funding Obligations, 2) Annual Program Budget, 3) Excess Fund Balance, 4) Fund Balance, 5) Fund Balance Cap, 6) HCP Program Account and, 7) Program Aquifer Management Fees. Mr. Hess also discussed the reasons behind the Reserve Fund, the individual Party's duties and responsibilities according to the FMA, and Limitations related to program costs. Mr. Hess briefly address the original intention for the EAHCP to seek and secure grant funding to help pay for the program. Discussion followed.

Mr. Pence provided an historical perspective related to the FMA. Discussion followed.

4. Presentation and discussion of the EAHCP budget.

Ms. Alicia Reinmund-Martinez (HCP Director) presented the EAHCP budget and the budget spreadsheet known as Table 7.1. Ms. Reinmund-Martinez presented graphs of expenditures by Conservation Measure. Mr. Pence interjected the concept of “frontloading” and that the increased expenses seen in the early years of the program are due to the construction and ramping up of programs in the initial phases of the HCP. Discussion followed.

Ms. Reinmund-Martinez reminded the Workgroup members of the memo written by the General Manager of the EAA regarding his desire to keep spending levels at the maximum shown in Table 7.1. Ms. Reinmund-Martinez then showed the Workgroup the “borrowing forward” concept that allows Parties to spend funds dedicated to future program years and how funds are tracked. Discussion followed.

5. Presentation and overview of the EAA Budget process.

Mr. Curry provided an overview of the EAA budgeting process. Mr. Curry stated that the process is focused on transparency. Mr. Curry presented the budget timeline where the proposed budget is presented to the Board of Directors in September, then public hearings are conducted in October. After consideration of any comments received, the Board then approves the budget in November. The Chair asked the question – “what time frame should the Workgroup make input to the Implementing Committee to have an impact on the budget process?” The answer was that the June Implementing Committee/Stakeholder meeting would be a good time to make a recommendation. Discussion followed.

6. Presentation and discussion of the EAA Aquifer Management Fee (AMF) and the EAHCP Reserve Fund.

Ms. Shelly Hendrix, EAA Controller, provided an overview of the AMF and the HCP Reserve Fund projections displaying actual costs and forecasted costs past 2016. Ms. Hendrix displayed AMF rates prior to the inception of the HCP program and then followed up with the various AMF split which provides funds to the HCP program. The Chair asked if they could see a projection of revenue in future meetings. Discussion followed.

Ms. Bailey and Mr. Hess also requested a presentation on the impacts to the reserve fund under various drought scenarios. EAA staff agreed to provide those presentations. The Chair reiterated his desire that projections be taken out to the end of the ITP term. Discussion followed.

7. Discuss future agenda items.

At the conclusion of the AMF/Reserve discussion, the Chair asked that the group summarize the presentations that the staff will provide during the next meeting. Mr. Pence offered to do that. Mr. Pence reminded the member that a Doodle Poll will be sent out to try to find a suitable date for the next meeting. Mr. Pence then offered the following items for the next agenda:

- Drought of Record Calculations for expenses
- Impact to the Reserve based on frontloading of various HCP programs
- Produce other scenarios, i.e. worst case scenario
- Reserve and revenue forecast compared to Table 7.1A
- AMF projection through 2027
- Show the 2% escalator impacts to the reserve.

Discussion regarding the escalator followed. Ms. Bailey commented that as the program moves forward, it will be interesting to watch management of funds if a drought of record occurs. The Chair stated that the EAA will secure the revenues needed to meet the obligation of the HCP which, during a drought, will impact water utilities especially hard. Discussion followed. Ms. Bailey asked about the interest rates that EAA was receiving on the reserve funds. Ms. Hendrix stated that it ranged from 1% to 1.5%. Discussion followed.

Mr. Curry informed the members that the EAA annual audit was complete and that the Auditors would be presenting the audit results to the EAA Board on Tuesday, April 11, 2017.

Mr. Pence informed the members that he would contact Mr. Yablonski to discuss his willingness to participate in the Work Group.

The Chair thanked the Program Manager and the staff for all the work performed and their efforts to make the meeting go well. The Chair said he understood the level of effort it took for staff to create these presentations.

Mr. Curry asked Ms. Bailey if she would like the background information used to create the various graphs and slides. Ms. Bailey stated that she would like to see that data.

8. Consider future meetings, dates, and locations.

Mr. Pence reminded the members that staff would initiate a Doodle poll as soon as possible to get the next meeting date on their calendars. Mr. Pence stated that early May was the target for the next meeting.

9. Questions and comments from the public.

The Chair asked if there were any comments from the public. Mr. Patrick Shriver, SAWS, asked that the scenario modeling show more detail and assumptions used in creating the model. Don't make the scenarios too complex. Discussion followed.

10. The meeting adjourned at 12:16 p.m.

SIGN-IN SHEET
EAHCP Implementing Committee
Budget Work Group Meeting
Friday, April 7, 2017

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Melanie Howard			
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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 Yablonksi. 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.

**EAHCP Implementing Committee
Budget Work Group Meeting
Thursday - May 11, 2017**

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