



Edwards Aquifer Habitat Conservation Plan
Report of the 2023 Budget Work Group



To: Edwards Aquifer Habitat Conservation Plan Implementing Committee
From: Edwards Aquifer Habitat Conservation Plan Budget Work Group
Date: September 26, 2023

Overview:

On July 27, 2023, an annual meeting of the Edwards Aquifer Habitat Conservation Plan (EAHCP) Budget Work Group was held to receive a report from Edwards Aquifer Authority (EAA) staff pertaining to the EAA’s Financial Forecast and to make recommendations regarding the EAHCP program budget. The Budget Work Group has been charged by the EAHCP Implementing Committee to “collaborate with and inform the EAA budget process, as it relates to the EAHCP, EAHCP Reserve and EAHCP Aquifer Management Fee and to address fiscal issues as they arise and are referred by the Implementing Committee”.

Members of this Work Group include:

- Tom Taggart, EAHCP Implementing Committee (IC) Member (City of San Marcos - Chair)
- Myron Hess, EAHCP Stakeholder member (Living Waters Project)
- Marc Friberg, EAA designee
- Cecilia Velasquez, San Antonio Water System designee
- Adam Yablonski, Member-at-Large, Medina County Farm Bureau

Work Group Discussions:

EAA staff presented information on the following items at the meetings:

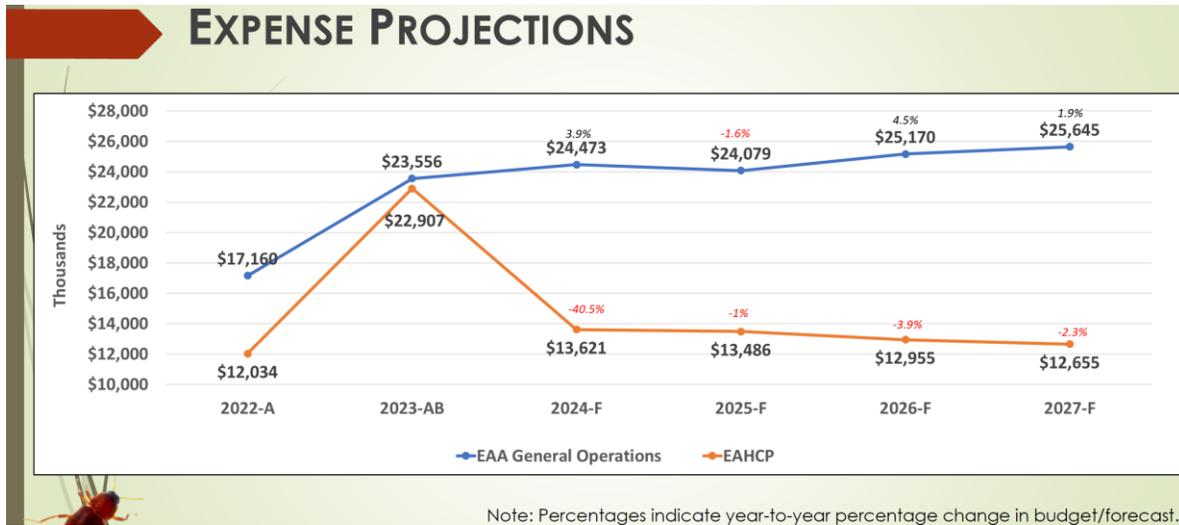
- Financial Forecast (2024-2027)
- Update of potential insurance products/debt instruments discussion

Financial Forecast (2024-2027):

EAA staff presented a projected Financial Forecast for the EAA, including both the EAA General Operations and Habitat Conservation Program budgets. A detailed illustration was given of how the 7.1 Budget compares to actual expenses (Table 7.1A) thus far and projected through 2027. Excluding costs for additional triggering events of VISPO or ASR recovery before 2027, the current projections show the EAHCP will be about \$45.2 million under budget by the end of that timeframe. No inflationary adjustments to the

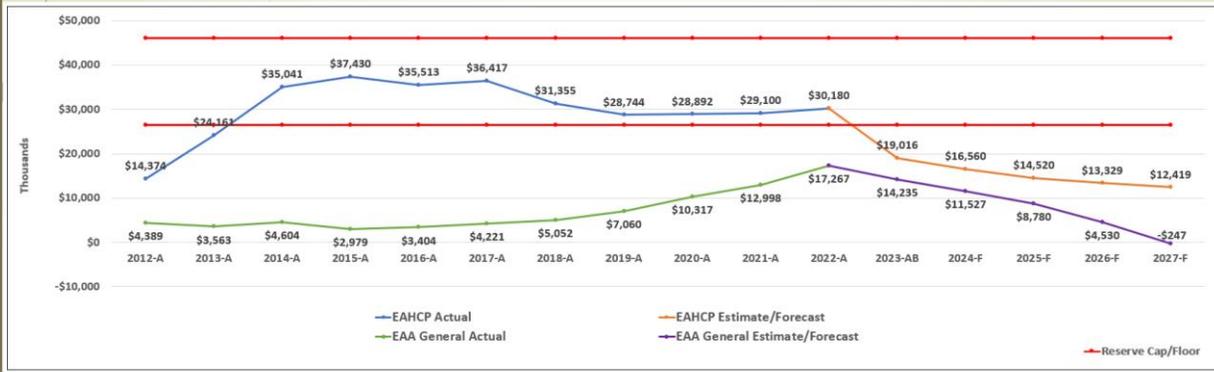
Table 7.1 amounts, as allowed in the EAHCP and the Funding and Management Agreement (FMA), are included in the projection through 2027.

A comparative look at the combined EAA/EAHCP expense projections through 2027 was provided. The EAA operating budget is projected to incur small increases each year whereas the EAHCP budget is projected to experience a decrease by over \$9 million in 2024 and then continue to slightly decrease each year as it reaches the end of the current Incidental Take Permit (ITP). This decline in EAHCP budget is largely predicated on an expected decrease in programmatic expenses but it must be noted that it does not include any additional VISPO trigger occurrences or ASR triggered recovery expenses.



EAA staff provided additional information regarding current trigger probabilities for both VISPO and ASR. Based on an analysis of historical data, conditions as of the date of the meeting indicated a 43-58% probability of triggering VISPO forbearance for 2024. The additional cost of triggering VISPO forbearance in 2024 would be approximately \$6.9 million, which would be paid from the EAHCP Reserve. Other VISPO forbearance events would carry comparable costs. There is no chance of ASR triggering in 2024 or 2025, as it is mathematically impossible for the 10-year rolling average to drop below the trigger value of 500,000 acre-feet for either of those years.

RESERVE FUND PROJECTIONS

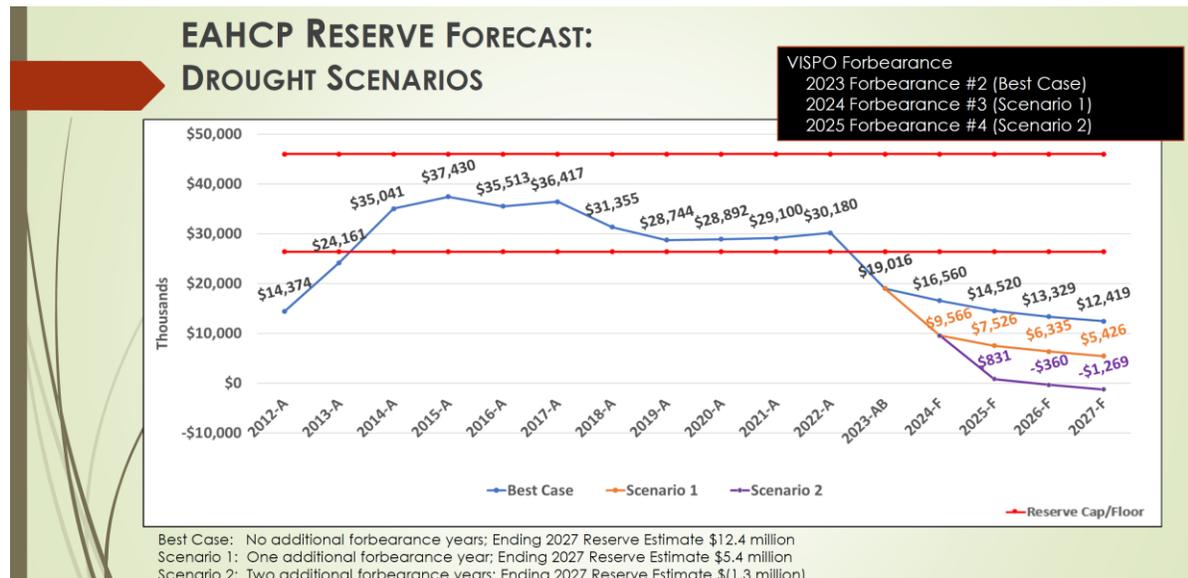


	2012-A	2013-A	2014-A	2015-A	2016-A	2017-A	2018-A	2019-A	2020-A	2021-A	2022-A	2023-AB	Forecast Rates			
EAA General AMF	\$47	\$47	\$37	\$37	\$40	\$44	\$42	\$46	\$50	\$50	\$53	\$54	\$58	\$57	\$56	\$56
HCP Program AMF	\$37	\$37	\$47	\$47	\$44	\$40	\$42	\$38	\$34	\$34	\$31	\$30	\$28	\$29	\$30	\$30
Combined AMF	\$84	\$84	\$84	\$84	\$84	\$84	\$84	\$84	\$84	\$84	\$84	\$84	\$86	\$86	\$86	\$86

In past years, the Work Group has stressed the importance of continuously evaluating the declining AMF portion allocated to HCP vs. EAA operations and the resulting negative effect on the reserve balance. The FMA language related to carryover approval of reserve balances or the default return of funds to the permit holders raises the question of what approach is acceptable and if carryover of funds is desired, what amount would be needed. This issue, once again, engendered a lengthy discussion of the combined EAA Aquifer Management Fee rate and Reserve Forecast, illustrating both past performance and the proposed EAA budget. At the time of the Work Group meeting the EAA proposed a \$2 *overall* increase to the EAA’s Aquifer Management Fee rate for 2024, going from \$84 to \$86. This will be the first increase since the start of the EAHCP. The allocation to HCP Program expenses is projected to decrease from current levels in 2024 and 2025. While future overall increases are likely to occur, the current Reserve projections do not reflect any further increases through 2027 - as EAA staff intends to continue to evaluate program expenses and how they affect the reserve fund each year. This approach is a departure from past years in the information provided the workgroup as 5-year forecasts were the standard. The year 2025 was stated by EAA as a pivotal year to re-assess VISPO or ASR probabilities and to recast Aquifer Management Fee rate projections, which are intended to be implemented in a stair-step fashion. The San Antonio Water System expressed frustration that those stair-step increases were not provided in the projection. However, the EAA’s position was that such projections in previous years did not come to fruition - potentially leading to unrealistic expectations with both the regulated community and interested parties associated with the EAHCP. A countervailing concern noted was that projections showing no increases after 2025 also create the potential for unrealistic expectations.

For additional context, some members requested more transparency related to the existing information, including caveats as to what assumptions were made in the projections shared by the EAA. To that end, the Work Group requested that EAA staff provide additional slides providing such caveats and showing Reserve forecasts reflecting different scenarios regarding VISPO forbearance through 2027. These new slides were shared with the Work Group via email and the Work Group chair subsequently shared those slides in a presentation to the EAHCP Implementing Committee at its August 10, 2023, meeting.

The first scenario, which is the best-case scenario, and is currently included in budget projections, does not include any additional VISPO trigger events and estimates a final Reserve balance of \$12.4 million. The second scenario projects one additional VISPO trigger event, leaving an estimated final Reserve balance of \$5.4 million. The third scenario projects two additional VISPO trigger events, leaving an estimated final Reserve deficit of \$1.3 million. In this scenario, an estimated \$3.50 would need to be added at some point to the Program Aquifer Management Fee rate to account for that occurrence.



As mentioned above, the original Financial Forecast that was presented to the Work Group on July 27th and the discussion regarding the Reserve balance, including the additional slides showing the three VISPO triggering scenarios were presented to the EAHCP Implementing Committee at its August 10, 2023, meeting. Many of the issues discussed and opinions provided during that meeting are included in the issues recommended to be referred to the Implementing Committee at the end of this report - creating some redundancy in the reporting. These issues include a referred discussion regarding a review of funding dynamics to be included in the remaining years of the current HCP and the new/renewed HCP and the disappointment expressed by the City of San Marcos and others in how the AMF has been allocated, the 2023 transfer to EAA reserves, and the Reserve fund level vs. potential drought costs. This issue is core to some and continues to be discussed with no consensus of resolution reached among the work group.

Update of potential insurance products/debt instruments discussion:

While continued due diligence is being done to measure the viability of alternative funding strategies, there is no current intention to employ any over the course of the next four years, and alternative strategies are only being considered for impact beyond 2027 for the onset of the new/renewed HCP. EAA Management intends to continue to review the practicality of other funding options and will keep the Implementing and Stakeholders Committees fully apprised.

Findings:

- The current financial projections and cost estimates presented to the Budget Work Group indicate an adequate budget for the EAHCP program for fiscal year 2024.
- There was an understanding amongst the group that after 12 years of no change in the overall AMF amount, there will be, at least, a \$2 overall AMF rate increase in 2024. The group also acknowledged that the AMF rates shown for years after 2025 are not to be interpreted as the actual proposed rate.
- The group agreed that if/when additional AMF rate hikes occur, they should be in a “stair-step” fashion (i.e. smaller and more frequent). However, to address the concerns raised by San Antonio Water System, the EAA will also attempt to present rate projections in the best way possible for planning purposes as it provides such information in the future.
- The work group did acknowledge that possible alternative funding methods including the grants discussed by EAA or debt may be possible, there was no consensus that such a funding mechanism was an appropriate strategy. San Marcos was opposed and voiced concerns with the potential perception by USFW of weakening the financial guarantee that the HCP measures can be performed.
- The final reserve amount for disposition is affected by funding decisions in AMF “togglng” in the intervening years until 2028. The Implementing Committee should resolve this per the FMA in this budget cycle to assist future budget planning. This should be revisited regularly through 2028 as more information about expenditures and future conservation measures becomes available.
- The Budget Work Group will continue to convene as early in the budget process as reasonable each year and the EAHCP Implementing Committee should appoint a chair for the Work Group for 2024.

Items for Consideration¹:

In a departure from previous years, the Work Group makes no finalized recommendation for the EAHCP Implementing Committee to forward to the EAA Board , but rather, the Work Group refers the items listed below to the Implementing Committee for discussion, consideration, and action in formulating a recommendation to the EAA Board regarding the 2024 budget. The Work Group recommends the Implementing Committee consider and discuss the following issues related to funding:

1. Disposition of reserve funds in relation to the new/renewed HCP

This issue has several discussion points. The first, is whether funds, if any, remaining in the Reserve at the expiration of the current EAHCP should be utilized for programs associated with the new/renewed HCP, or should such funds be refunded to all permit holders on a pro rata basis per an option in the FMA? The second is whether the Reserve should be managed in a way that ensures adequate funding is available on a decreasing scale in relation to the years remaining for the current EAHCP or to maintain a robust

¹ Final Revised – EAHCP Implementing Committee Approved October 5, 2023

reserve, with an eye toward a future use – whether that be a refund or costs associated with the new/renewed HCP. As part of the 2023 Work Group discussion, the City of San Marcos advocated for needed fee increases for EAA operations with the assertion that utilities have prepaid for drought costs in the original fee and additional costs of financing funds needed due to reserve methodology moving funds to EAA operations is paying twice. The default FMA requirement of a refund of remaining reserves is in keeping with the original AMF increase EAA board action on entering the program. The EAA, on the other hand, would prefer to let the Reserve decline over time as current EAHCP programs expire, with an eye toward adjusting conservation measures in a way that would eliminate or minimize the need for a Reserve in the new/renewed HCP.

2. Clarification of funding mechanisms expectations to avoid the current disparate understandings regarding intent and implementation when developing a new/renewed HCPT

The Budget Work Group report has expressed concerns on the AMF portioning and other budget actions with the resulting effects on reserve levels. The City of San Marcos articulated disappointment in how the EAA has managed the Reserve over the last six years in relation to its understanding of the intent of the EAHCP's FMA. There certainly is no current consensus between the parties on how the EAHCP, and its associated FMA, should be implemented. To minimize disagreements about intent and implementation of funding mechanisms, clarification should be sought on what is required now by the FMA and, critically, what changes may be appropriate to minimize the potential for continued disagreements and competing interpretations as we move to a new/renewed HCP.

3. The necessity of irregular funding requirements associated with conservation measure “trigger” events, and if necessary, how those funding requirements may best be met.

Is there a better way to design the same or similar conservation measures to avoid irregular funding requirements? This question was raised by the EAA during the Work Group discussion, with the stated intent to evaluate the funding mechanisms for the springflow protection measures during the HCP renewal process. The EAA's contention is that programs designed to incur more consistent yearly expenses make for a more certain and manageable funding process with less reserves required, pointing out that such a change has already been successfully accomplished for the ASR Program's lease/forbearance agreements. The City of San Marcos expressed concerns that such an approach would lead to more costly measures in the new/renewed HCP.

APPENDIX A
SLIDE PRESENTATIONS

EAHCP BUDGET WORK GROUP



JULY 27, 2023



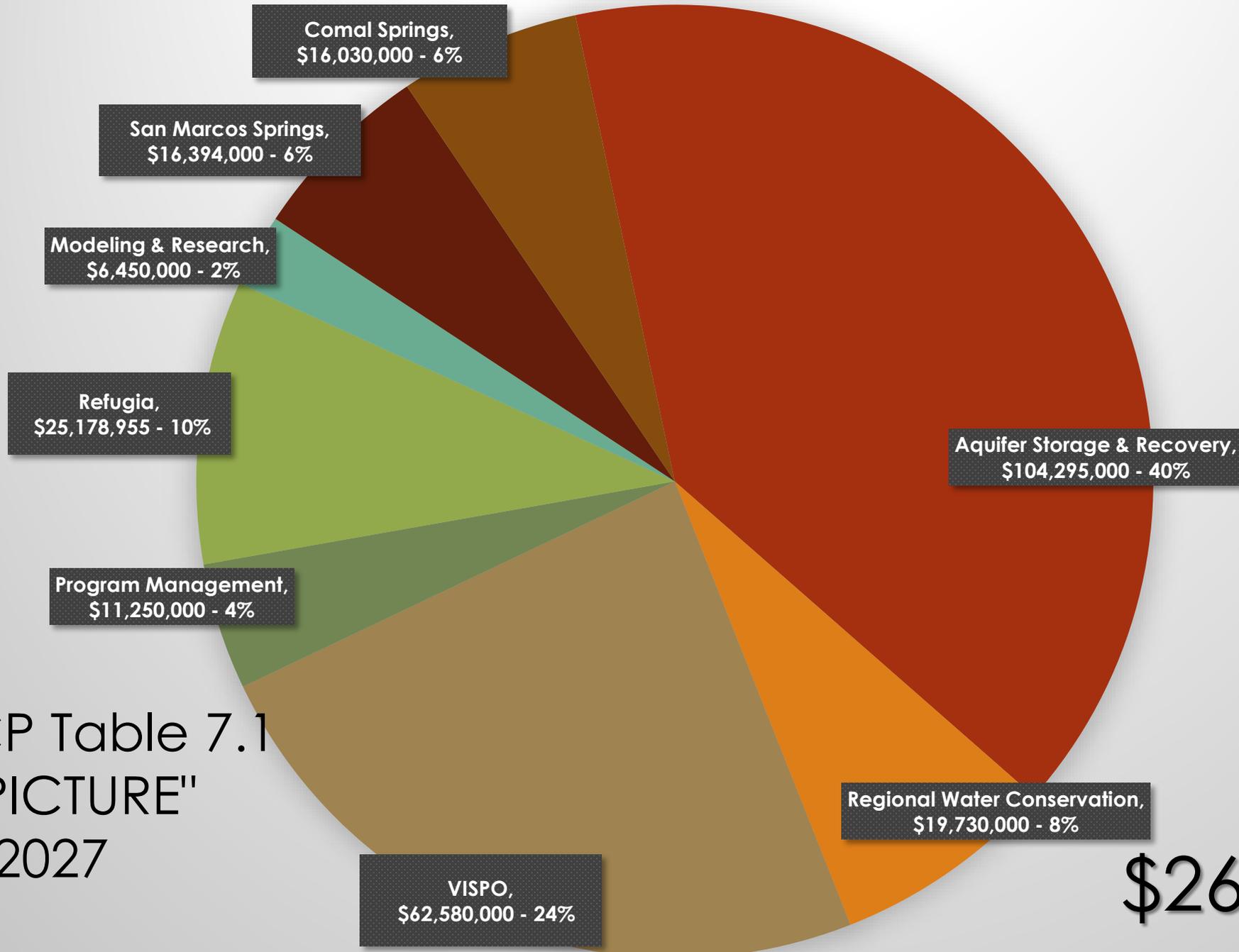
CHARGE OF THE EAHCP BUDGET WORK GROUP

- 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.

EAHCP 7.1A ANALYSIS AND FORECAST



- Aquifer Storage & Recovery
- Regional Water Conservation
- VISPO
- Program Management
- Refugia
- Modeling & Research
- San Marcos Springs
- Comal Springs



\$261,907,955

EAHCP Table 7.1
 "BIG PICTURE"
 2013-2027



7.1 ADJUSTED

“TABLE 7.1A”

*TRACKS ACTUALS FOR CLOSED YEARS AND
FORECASTED PERIODS THROUGH THE END OF THE ITP.*

TABLE 7.1 AND TABLE 7.1A COMPARISON

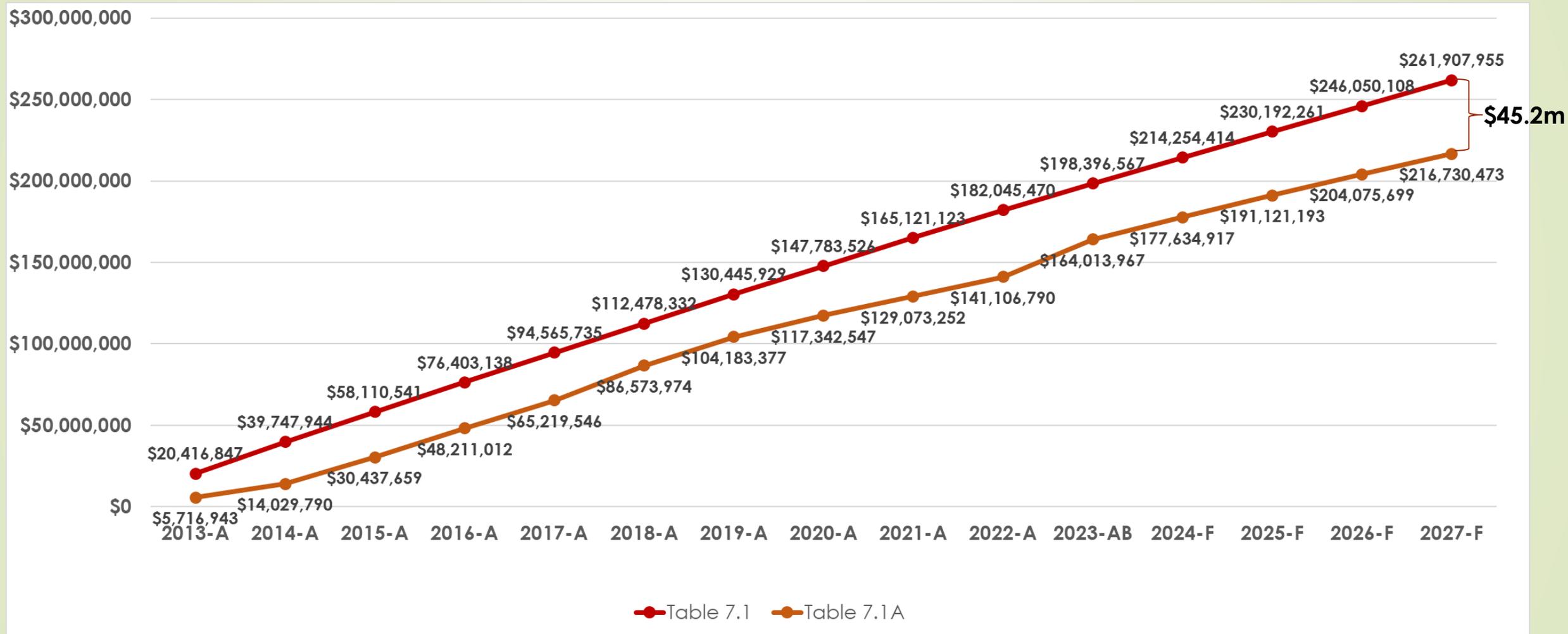


Table 7.1A Updated with 2024 – 2027 Forecast

PROGRAM TOTALS

TABLE 7.1 AND TABLE 7.1A COMPARISON

EAHCP Measure	Table 7.1 Totals	Table 7.1A Projected Totals	▲ Between Table 7.1 to 7.1A
Program Administration	\$11,250,000	\$16,264,373	(\$5,014,373)
ASR - Leasing/Forbearance	71,385,000	71,360,174	24,826
ASR - O & M	32,910,000	4,709,262	28,200,738
Regional Water Conservation	19,730,000	19,414,103	315,897
VISPO	62,580,000	45,351,492	17,228,508
San Marcos Springs	16,394,000	18,101,666	(1,707,666)
Comal Springs	16,030,000	16,515,977	(485,977)
Modeling & Research	6,450,000	6,048,281	401,719
Refugia	25,178,955	18,965,145	6,213,810
Total	\$261,907,955	\$216,730,473	\$45,177,482

Entity	Table 7.1 Totals	Table 7.1A Projected Totals	▲ Between Table 7.1 to 7.1A
Edwards Aquifer Authority	\$238,483,955	\$192,932,246	\$45,551,709
City of San Marcos - Texas State University	11,894,000	12,770,112	(876,112)
City of New Braunfels	11,530,000	11,028,116	501,884
Total	\$261,907,955	\$216,730,473	\$45,177,482

TABLE 7.1 AND TABLE 7.1A COMPARISON

EDWARDS AQUIFER AUTHORITY

EAHCP Measure	Table 7.1 Totals	Table 7.1A Projected Totals	▲ Between Table 7.1 to 7.1A
ASR - Leasing/Forbearance	\$71,385,000	\$71,360,174	\$24,826
ASR - O & M	32,910,000	4,709,262	28,200,738
Regional Municipal Water Conservation	19,730,000	19,414,103	315,897
VISPO	62,580,000	45,351,492	17,228,508
Biological Monitoring	6,000,000	8,136,242	(2,136,242)
Water Quality Monitoring	3,000,000	2,683,175	316,825
Ecological Modeling	1,150,000	1,127,758	22,242
Applied Research (Research & Facility)	4,750,000	3,562,010	1,187,990
Refugia	25,178,955	18,965,145	6,213,810
Program Management	11,250,000	16,264,373	(5,014,373)
Science Review Panel	550,000	1,358,513	(808,513)
Total	\$238,483,955	\$192,932,246	\$45,551,709

TABLE 7.1 AND TABLE 7.1A COMPARISON

CITY OF SAN MARCOS/TEXAS STATE UNIVERSITY

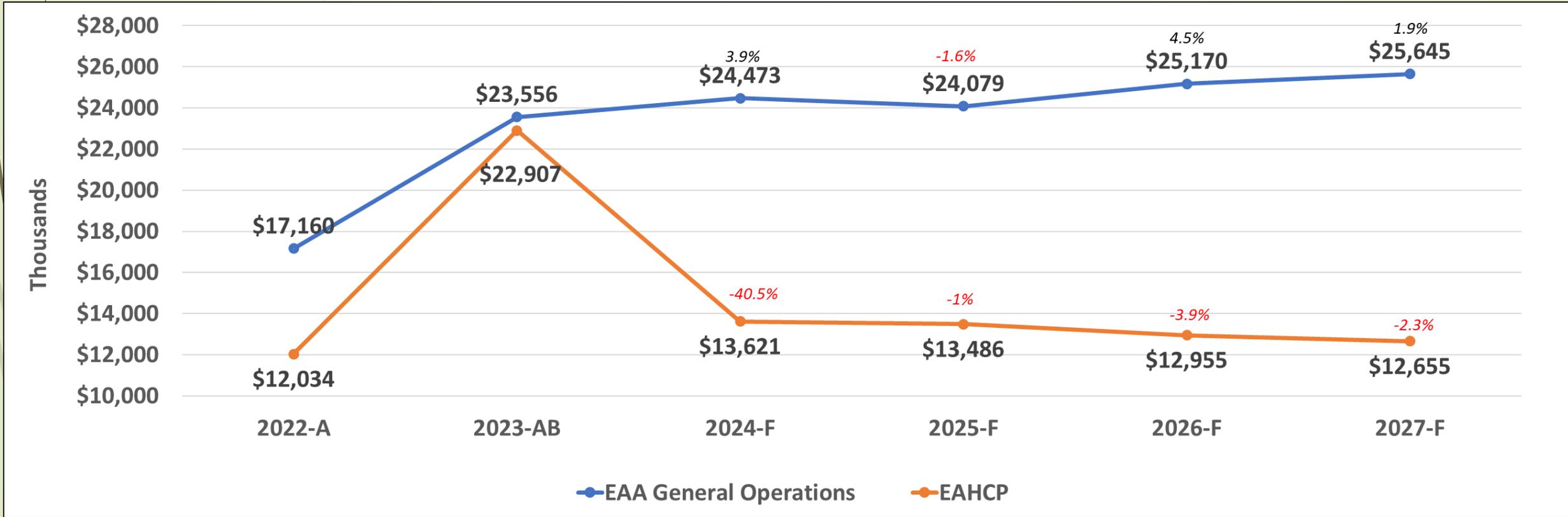
EAHCP Measure	Table 7.1 Totals	Table 7.1A Projected Totals	▲ Between Table 7.1 to 7.1A
TX Wild Rice Enhancement/Restoration	\$1,850,000	\$1,230,665	\$619,335
Sediment Removal	850,000	744,292	105,708
Non-Native Plant Species Control	1,375,000	3,034,096	(1,659,096)
Litter Control/Floating Vegetation	1,200,000	676,703	523,297
Non-Native Animal Species Control	525,000	393,668	131,332
Bank Stabilization/Perm Access Points	780,000	1,153,492	(373,492)
Restoration - Riparian Zones	380,000	651,836	(271,836)
Management - Key Public Rec Areas	784,000	845,487	(61,487)
LID/BMP Management	3,600,000	3,512,099	87,901
Household Hazardous Waste Program	450,000	412,426	37,574
Sessom Creek Sand Bar	100,000	100,000	0
Education	0	15,349	(15,349)
Total	\$11,894,000	12,770,112	(\$876,112)

TABLE 7.1 AND TABLE 7.1A COMPARISON

CITY OF NEW BRAUNFELS

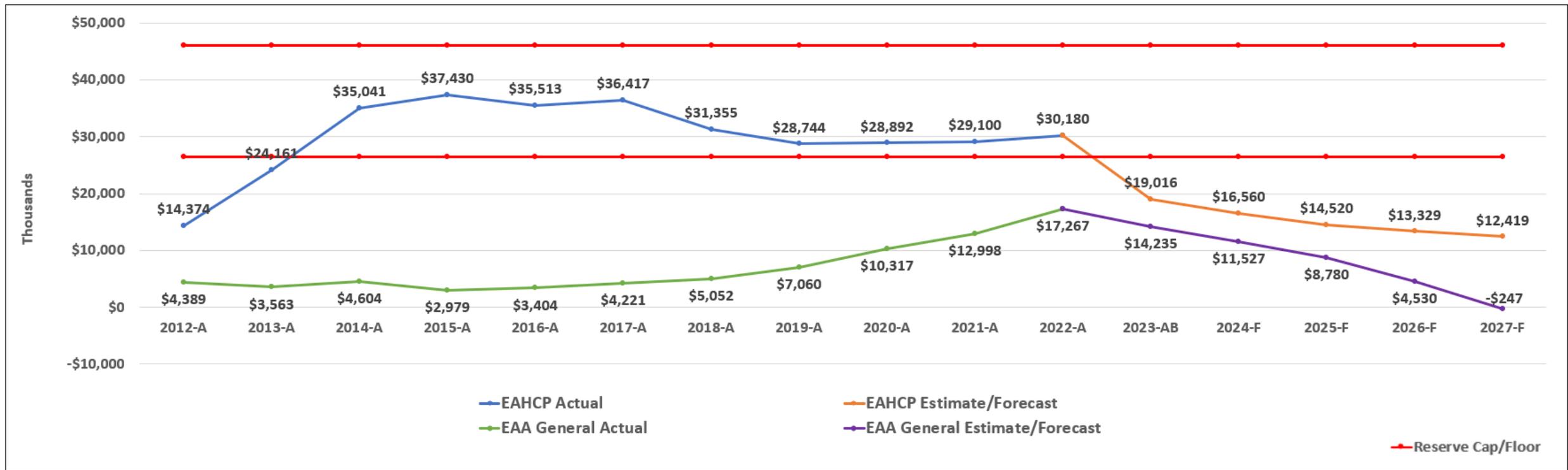
EAHCP Measure	Table 7.1 Totals	Table 7.1A Projected Totals	▲ Between Table 7.1 to 7.1A
Old Channel Restoration	\$2,000,000	\$1,709,004	\$290,996
Flow Split Management	270,000	352,878	(82,878)
Aquatic Vegetation Restoration	1,245,000	1,471,608	(226,608)
Non-Native Animal Species Control	1,245,000	974,722	270,278
Decaying Vegetation Removal	960,000	390,513	569,487
Riparian Impr - Riffle Beetle	525,000	482,539	42,461
Gill Parasite Control	1,325,000	814,790	510,210
Restoration - Riparian Zones	1,600,000	2,142,668	(542,668)
LID/BMP Management	1,900,000	1,860,039	39,961
Household Hazardous Waste Program	450,000	528,629	(78,629)
Litter Control/Floating Vegetation	0	297,376	(297,376)
Prohibition - Hazardous Materials Route	10,000	0	10,000
Education	0	3,349	(3,349)
Total	\$11,530,000	\$11,028,116	\$501,884

EXPENSE PROJECTIONS



Note: Percentages indicate year-to-year percentage change in budget/forecast.

RESERVE FUND PROJECTIONS



	2012-A	2013-A	2014-A	2015-A	2016-A	2017-A	2018-A	2019-A	2020-A	2021-A	2022-A	2023-AB	Forecast Rates			
													2024-F	2025-F	2026-F	2027-F
EAA General AMF	\$47	\$47	\$37	\$37	\$40	\$44	\$42	\$46	\$50	\$50	\$53	\$54	\$58	\$57	\$56	\$56
HCP Program AMF	\$37	\$37	\$47	\$47	\$44	\$40	\$42	\$38	\$34	\$34	\$31	\$30	\$28	\$29	\$30	\$30
Combined AMF	\$84	\$84	\$84	\$84	\$84	\$84	\$84	\$84	\$84	\$84	\$84	\$84	\$86	\$86	\$86	\$86

* NOTE: This slide represents worst-case, conservative estimates. It should be interpreted in light of the July 2023 Budget Workgroup discussion in order to understand the scenarios presented, impacts to reserve and plans to mitigate in years 2025 – 2027.

EAHCP DROUGHT PROBABILITIES: VISPO & ASR FORBEARANCE

VISPO FORBEARANCE

- ❖ **VISPO Trigger:** *“If, on October 1st of a year, the J-17 Index well water level is at or below 635 feet msl, the General Manager of the EAA shall issue a notice of a Forbearance Year. A Forbearance Year commences on January 1st of the year following the year in which the General Manager issued a notice of a Forbearance Year.”*
 - Considering historical data through 2022, the probability of reaching the VISPO trigger would be about 8% and for the 6 years (2023-2028), the chances of VISPO triggering are:
 - 1 or more VISPO trigger years = 39.2 percent
 - 2 or more = 7.7 percent
 - 3 or more = 0.8 percent
 - 4 or more = 0.1 percent
 - As of July 1, 2023, water levels in J-17 were low (less than 635 ft msl). This condition on July 1 has occurred 12 times over the 88 years on record, and in 7 of those years, the October 1 water level at J-17 was at or below the VISPO trigger of 635 ft msl.
 - The probability of reaching the VISPO trigger in 2023, for forbearance in 2024, is likely to be closer to 58% using those criteria.
 - A broader analysis that expands the range of dates (± 10 days) and water levels (± 7 ft) on July 1 of any given year also provides an estimate of the probability of triggering VISPO forbearance. There were 14 years that meet the date and level criteria. VISPO would have been triggered in 6 of those years, resulting in a probability of 43%.
 - In summary, the probability of triggering VISPO in 2023, for forbearance in 2024, is likely to be between 43–58%.

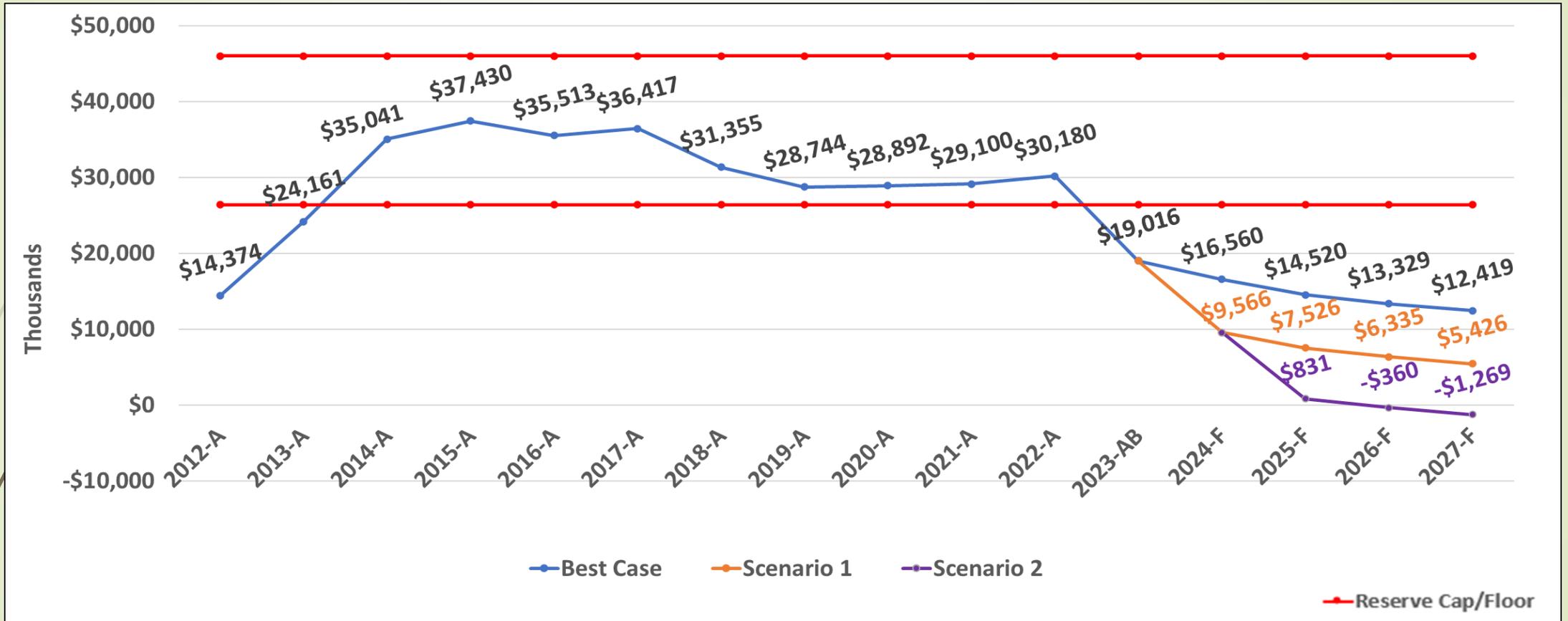
EAHCP DROUGHT PROBABILITIES: VISPO & ASR FORBEARANCE

ASR FORBEARANCE

- ❖ **ASR Trigger:** *“If, on June 1st of a year, the Ten-year Rolling Average of the Estimated Annual Recharge to the Aquifer is equal to or less than 500,000 AF/annum, the General Manager of the EAA shall issue a notice of a Forbearance Year. A Forbearance Year commences on January 1st of the year following the year in which the General Manager issued a notice of a Forbearance Year.”*
 - The 10-year rolling average recharge calculated on June 1, 2023, based on recharge estimates for years 2013–2022, was 553,200 acre-feet, indicating that 2024 will **not** be a Forbearance year.
 - There is zero chance of ASR triggering in the years of 2024 and 2025, even if recharge were zero for 2 of the preceding years, the 10-year average would still be above 500,000 acre-feet.
 - The chance of triggering in the year 2026, for forbearance in 2027, is about 15.8%.
 - The chances of triggering in 2027, for forbearance in 2028, is about 46%.

EAHCP RESERVE FORECAST: DROUGHT SCENARIOS

VISPO Forbearance
 Current 2023 Forbearance (Best Case)
 Additional Forbearance in 2024 (Scenario 1)
 Second Additional Forbearance in 2025 (Scenario 2)



Best Case: No additional forbearance years; Ending 2027 Reserve Estimate \$12.4 million
 Scenario 1: One additional forbearance year; Ending 2027 Reserve Estimate \$5.4 million
 Scenario 2: Two additional forbearance years; Ending 2027 Reserve Estimate -\$1.3 million

*** NOTE: This slide represents worst-case, conservative estimates. It should be interpreted in light of the July 2023 Budget Workgroup discussion in order to understand the scenarios presented, impacts to reserve and plans to mitigate in years 2025 – 2027.**



QUESTIONS?

APPENDIX B
MEETING AGENDA

2023 EAHCP Budget Work Group

Meeting Agenda
Thursday, July 27, 2023
2:00 - 4:00 p.m.

1. **Confirm attendance**
 2. **Public comment**
 3. **Receive presentation and consider possible action associated with the EAHCP Table 7.1A Analysis and Forecast**
 4. **Update of potential insurance products/debt instruments discussion**
 5. **Public comment**
 6. **Future meetings**
 7. **Adjourn**
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APPENDIX C
MEETING MINUTES

2023 EAHCP Budget Work Group

Meeting Minutes Thursday, July 27, 2023

Members of this Work Group include Tom Taggart (Acting Chair - City of San Marcos), Marc Friberg (Edwards Aquifer Authority), Adam Yablonski (Medina County Farm Bureau), Myron Hess (Texas Living Waters Project), and Cecilia Velasquez (SAWS).

1. Confirm attendance.

Tom Taggart called the meeting to order at 2:03 p.m. All Work Group members were present.

2. Public comment.

There were no comments from the public.

3. Receive presentation and consider possible action associated with the EAA's Financial Forecast (2024-2027)

Shelly Hendrix presented the EAA's financial forecast that was presented to the EAA Board on 7-11-23.

Provided an overview of how the EAHCP budget is allocated amongst its various programs and expense categories. It should be noted that the forecast is predicated on assumptions and rate considerations & reserves. A comparative look at the projections between Table 7.1 and Table 7.1A indicates expenditures at \$45.2 million below Table 7.1 values. These forecast updates are based on estimates to the end of the Incidental Take Permit (ITP) and 2024 EAHCP budget. Myron noted that this comparison is made without considering the inflation adjustment provided in the HCP for the Table 7.1 values and complimented that, while this may be partially due to good fortune, it is a testament to our careful financial stewardship.

The combined EAA General Operations/EAHCP expense projections through 2027 were provided. The annual expenses for EAA General Operations are projected to slightly increase whereas the EAHCP expenses are projected to slightly decrease each year through the rest of the ITP, which is due to a general decline in programmatic expenses as we approach the end of the permit.

The EAHCP Budget Reserve Fund projections were presented to the Workgroup, which were received positively by some and negatively by other members. As previewed last year, the AMF rate will increase from \$84 to \$86 in 2024, which is the first rate increase since the inception of the EAHCP in 2012. While future

AMF rate increases are expected prior to 2027, the reserve fund projections provided do not currently reflect any further increases through 2027 as the EAA would like to continue to evaluate program expenses and how they affect the reserve fund each year, instead of potentially giving false expectations at this point. Marc stated that 2025 will be an opportune year to gain a more accurate understanding of likely triggers of VISPO or ASR under the current ITP and what conservation measures and funding needs will be needed for the next ITP and, accordingly, to re-evaluate our AMF rate projections at that time. Any rate increases will be done in a stair-step manner. Tom stated that no stair-step increase approach had been used since the program started.

Adam asked if the EAA had any updated odds on another VISPO trigger and Marc replied that current statistical analysis shows anywhere between a 40-50% probability. Adam asked if the EAA had any updated odds on another ASR trigger and Marc replied that it is mathematically impossible for the next two years because of the recharge calculation—even with zero recharge, five-year average would not hit the ASR forbearance trigger. Also, even with a trigger, ASR forbearance costs would only come into play if there were SAWS Operation and Maintenance (O&M) withdrawal costs. ASR has a 2-3 year projection window. Tom expressed concern that the current approach to use the reserve balance to offset any VISPO trigger pay-outs as well as support higher EAA operations costs is not conservative enough to address this potential issue, given the drought conditions we may continue to face. He also maintains the FMA does not provide for reserve uses outside the program.

There was discussion of the value of the Work Group noting, in a future report, some lessons learned under the current HCP and FMA provisions that should inform the next iteration of the HCP and help to minimize the potential for disparate understandings and expectations about funding mechanisms.

4. Update of potential insurance products/debt instruments discussion

Marc gave an update on any possible alternative financial mechanisms that could be used to pay any debt events. He remarked that EAA leadership is still doing their due diligence to find avenues to secure additional funding when needed. With effectively only 4 years left on the current ITP and the belief that there is ample funding to absorb any unexpected program costs, these alternative financial instruments are unlikely to be pursued. Those types of instruments are not being considered for the next ITP.

Cecilia asked why the expected stair-step increase is not shown in the forecast. Shelly replied that we are waiting until 2025 to re-evaluate our projections to reflect any forecasted rate changes. Cecilia pointed out that we previously reflected such projected increases in previous Budget Workgroup meetings but Marc stated that we have adopted this different approach this year. Tom questioned if USFWS would look at these projections and question if we have

fiscal surety going into the next HCP with our reserve balance depleted. Marc contended that USFWS would positively view our current financial outlook, with enough reserves to pay for at least 2 more VISPO triggers along with the ability to raise funds to cover anything beyond that. It was later clarified that, without an additional increase in the AMF allocated to the HCP, 2 additional VISPO triggers would result in a negative reserve balance.

Tom asked what is to be reported to the Implementing Committee. Myron said we should lay out all of the projections and what options can be taken to address any changes. Adam expressed further concern as well that if we do have multiple VISPO triggers before 2027 if AMF rate increases are enough to address any exorbitant program expenditures. After discussion, it was acknowledged that it likely would be appropriate to indicate that the level AMP rates shown for years after 2025 should not be interpreted as the actual proposed rate.

Tom and Marc agreed that an insurance policy is unrealistic with today's rates and the high probability of a claim on our part. A line of credit is a more plausible option.

Myron asked if multiple scenarios for the reserve fund projections can be provided as in depictions for previous years and that was agreed to.

Tom stated that the issue of final reserve disposition in 2028 is both an IC and EAA decision and given the proposed direction of reserves with the EAA budget approach, perhaps it is now timely to have that discussion as these topics are coupled.

Dianne Wassenich of the San Marcos River Foundation requested if the meeting presentation slides can be provided to her for our review. Scott indicated the slides would be made available online.

5. Public comment

There were no comments from the public.

6. Future meetings

No date was set for any additional Work Group meetings in 2023.

7. Adjourn – 3:07 p.m.
