



Edwards Aquifer Habitat Conservation Plan
Report of the 2022 Budget Work Group



To: Edwards Aquifer Habitat Conservation Plan Implementing Committee
From: Edwards Aquifer Habitat Conservation Plan Budget Work Group
Date: August 19, 2022

Overview:

On June 30 and July 29, 2022, meetings of the Edwards Aquifer Habitat Conservation Plan (EAHCP) Budget Work Group were held to receive a report from Edwards Aquifer Authority (EAA) staff pertaining to the EAA's 5-Year 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."

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)
- Brock Curry, EAA designee
- Cecilia Velasquez, San Antonio Water System (SAWS) designee
- Adam Yablonski, Member-at-Large, Medina County Farm Bureau

Work Group Discussions:

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

- Five-Year Financial Forecast (2023-2027)
- Discussion of economic analysis report from TXP, Inc.

Five-Year Financial Forecast (2023-2027). EAA staff presented a Five-Year Financial Forecast for the EAA, including both the EAA General Operations and Habitat Conservation Program budgets. An illustration was provided on how the EAA receives its revenue, which is almost entirely through the Aquifer Management Fee (AMF). This fee is paid by either Municipal & Industrial (M&I) or Irrigation/Agricultural permit holders. 97% of the revenue from AMF ratepayers are from M&I permit holders.

The 5-Year Forecast included a few noted assumptions on the EAA general operation budget associated staff-related/benefits/and the projected cost factoring in inflation and EAA goals. 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 \$51.3 million under budget by the end of that timeframe. No inflationary adjustments to the Table 7.1 amounts, as provided for in the EAHCP and the Funding and Management Agreement, are included in the projection through 2027.

The work group also discussed current drought conditions which indicate a 55% probability of triggering VISPO forbearance for 2023, based on historical data. There was general agreement among Work Group members that the likelihood of avoiding triggering VISPO forbearance in 2023 appears very small. The cost of triggering VISPO forbearance in 2023 would be about \$7.5 million, which would be paid from the EAHCP Reserve.

A comparative look at the combined EAA/EAHCP expense projections through 2027 was provided. The EAA operating budget is projected to require increases each year whereas the EAHCP budget is projected to experience annual percentage decreases as it reaches the end of the current Incidental Take Permit (ITP). The Work Group discussed the relevance of evaluating the potential need to maintain a significant Reserve Fund balance at the end of the current ITP and HCP in order to avoid high front-end costs for implementing a new/renewed HCP.

The combined EAA Aquifer Management Fee rate and EAHCP Reserve Fund Forecast were discussed related to past performance and the proposed EAA budget. There is no proposed *overall* increase to the EAA's aquifer management fee rate for 2023, two scenarios/options were presented on how to address any AMF rate changes or Reserve Fund floor considerations going forward:

EAA staff presented two options:

Option 1 - Increase AMF Rate and Maintain \$26.4 million EAHCP Reserve Floor

AMF Rate Option 1:

| | <i>Forecast Rates</i> | | | | |
|----------------------------|------------------------------|----------------------|----------------------|----------------------|----------------------|
| | <i>2023-F</i> | <i>2024-F</i> | <i>2025-F</i> | <i>2026-F</i> | <i>2027-F</i> |
| EAA General AMF | \$45 | \$54 | \$60 | \$68 | \$74 |
| HCP Program AMF | \$39 | \$35 | \$35 | \$33 | \$33 |
| <i>Combined AMF</i> | <i>\$84</i> | <i>\$89</i> | <i>\$95</i> | <i>\$101</i> | <i>\$107</i> |

The total AMF rate would see annual increases beginning in 2024, reaching \$107 in 2027. The EAHCP Program AMF rate would increase from \$31 to \$39 in 2023, whereas the EAA General Operations AMF rate would decrease from \$53 to \$45. Thereafter, the EAHCP Program AMF rate would decline with significant annual increases in the EAA General Operations AMF rate. The intention of this scenario would be to prevent going below the \$26.4 million HCP reserve “floor” in the absence of a VISPO or ASR triggering event. The minimum reserve floor was recommended by the Budget Work Group and Implementing Committee in

2017 and implemented by the EAA Board beginning in 2018 as a protection when implementing reductions in the portion of the AMF rate allocated to the HCP. While an AMF rate increase in 2023 to \$88 per acre-foot rate was previously contemplated by EAA staff, staff proposes to keep it at the current \$84 per acre-foot rate. This is due to a property sale by the EAA resulting in proceeds that could mitigate the need for a rate increase in 2023.

Option 2 – Increase AMF rate and Modify Reserve Management Strategy

AMF Rate Option 2:

| | <i>Forecast Rates</i> | | | | |
|---------------------|------------------------------|----------------------|----------------------|----------------------|----------------------|
| | <i>2023-F</i> | <i>2024-F</i> | <i>2025-F</i> | <i>2026-F</i> | <i>2027-F</i> |
| EAA General AMF | \$54 | \$57 | \$59 | \$63 | \$68 |
| HCP Program AMF | \$30 | \$29 | \$29 | \$28 | \$28 |
| <i>Combined AMF</i> | <i>\$84</i> | <i>\$86</i> | <i>\$88</i> | <i>\$91</i> | <i>\$96</i> |

The AMF rate would see annual increases after 2023, plateauing at \$96 in 2027. The EAHCP Program AMF rate would decrease slightly from \$31 to \$30 in 2023, whereas the EAA General Operations AMF rate would slightly increase from \$53 to \$54. After 2023, the overall AMF rate would see smaller, incremental annual increases, reaching \$96 in 2027. These increases would be comprised of a relatively flat EAHCP Program AMF rate but smaller annual increases in the EAA General Operations AMF rate. This scenario would cause the EAHCP to decline below the floor, with a projected \$15.1 million remaining by 2027. That projected reserve balance does not include any expenses for triggering VISPO forbearance or ASR recovery in the period until 2027. This scenario includes the reliance on alternative funding strategies that were presented to the EAA Board in April 2022 in an economic analysis report by TXP, Inc. This report, which was shared with the EAHCP Budget Work Group in their meeting on June 30, 2022, recommended utilizing a debt instrument or insurance products to fund VISPO or ASR payments should they be triggered. EAA staff stated that they are currently reviewing the viability of such options and will continue to keep the Work Group members fully apprised. EAA further said they will engage all stakeholders, partner entities in the EAHCP, and the USFWS as EAA staff explores potential alternate approaches to fiscal surety of the program.

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 2023.
- There was consensus amongst the group that EAA, after 11 years of no change in the overall AMF amount, does need to adjust permit fees due to increased

EAA general operating expenses and there was strong support for incremental AMF rate increases in a “stair-step” fashion (i.e. smaller and more frequent) to allow the rate payers to absorb those costs better.

- The group firmly advocated against rate designs that result in high “spikes” in rates.
- The work group was formed by the IC after the first “toggle” or decrease in the AMF HCP portion. Concerns on the methodology of funding EAA operations creating a reduction in EAHCP reserves have been conveyed to the EAA by the IC in each year of the Work Group’s reports on the financial status of the HCP. A high level of concern was expressed by some members at this Budget Work Group meeting regarding the proposed Option 2 method and the continuing downward trend of the EAHCP Reserve and the possible program implications.

The design of the reserve in the FMA was intended to provide fiscal surety to the USFW Service, and all involved, that the non-regulatory spring flow protection measures will be supported and implemented in the event of droughts producing triggering conditions. It also protects the funds collected for the EAHCP so they are used **only** for program expenses, and if not used, returned to the permittees that paid them. Some members believe Option 2 does not take that intent into account. While some members believe Option 2 does not take that intent into account, others think that Option 2 will allow the EAA to continue to manage EAHCP fees and associated reserves in a manner consistent with the FMA.

Discussion included potential advantages seen in Option 2 of containing rates, possible changes in the future ITP to the VISPO to “level” payments vs. tiered based on aquifer conditions, and lower annual increases of rates. It could also avoid collection of higher amounts during droughts that are themselves a hardship on utility customers. This approach would build more capacity in EAA operating reserves, which would also be available to fund the unexpected needs of the EAHCP, if necessary. Disadvantages discussed for Option 2 include possible non-conformance with the program documents and additional debt service expense associated with potential borrowing for VISPO. In extraordinary circumstances, use of reserves may be a reasonable alternative to be considered on a case-by-case basis. There is no consideration of climate change and possible effects on the HCP expense profile related to reserves.

The group had various positions on the process for evaluating the proposals and the degree to which the stakeholders and partner entities should have input. The group also had differing opinions about whether the \$26.4 million reserve “floor” was still appropriate in light of the fact that only five more years remain under the current HCP. Some feel this is purely an EAA budget issue for the EAA Board. Some feel that as the entire HCP was developed with all involved and is an ongoing joint effort of all the partner entities it should be closely coordinated with them. Understanding of the final approach is important to the current and future EAHCP.

- The work group did conclude that much information about the potential alternatives and how they could affect the program is currently lacking. Viability of the Option 2 proposals remains unclear. Due to lack of information to inform a decision and the divergent positions, a consensus was not reached by the Work Group members to support changes to the Reserve levels or a specific option. However, consensus was reached to continue to seek info on alternative funding mechanisms and reserve effects to better identify and understand the implications. The group has requested to be kept fully abreast on the exploration of alternatives to the current AMF reserve approach.
- The Budget Work Group will continue to convene as early in the budget process as reasonable each year.

Recommendations:

The Work Group recommends the Implementing Committee adopt and present the following recommendations to the EAA Board of Directors:¹

- 1. The Implementing Committee supports robust EAA outreach to and involvement of the public, stakeholders from the EAHCP committees, and EAA permittees as funding options are considered.**
- 2. EAHCP Reserve Fund declines have been noted by the Work Group as a cause for concern in all past reporting years and the Option 2 proposal further elevates that concern, accordingly the Implementing Committee urges the EAA to develop and share information about potential Option 2 funding approaches, and implications, as early and openly as possible.**
- 3. In addition, the Work Group recommends the Implementing Committee should further evaluate the EAA proposed funding approach, particularly as new information is developed regarding Option 2 and impacts on the Reserve Fund design and floor and include further input as appropriate to the EAA Board.**

¹ An initial recommendation to support rate increases to the AMF rate for EAA and EAHCP operations funding as well as the preference for frequent & smaller periodic rate adjustments vs. high single year increases was not considered and approved by the EAHCP Implementing Committee during their September 9, 2022 meeting.

APPENDIX A

SLIDE PRESENTATIONS

EAHCP BUDGET WORK GROUP



JULY 29, 2022





CHARGE OF THE EAHCP BUDGET WORK GROUP

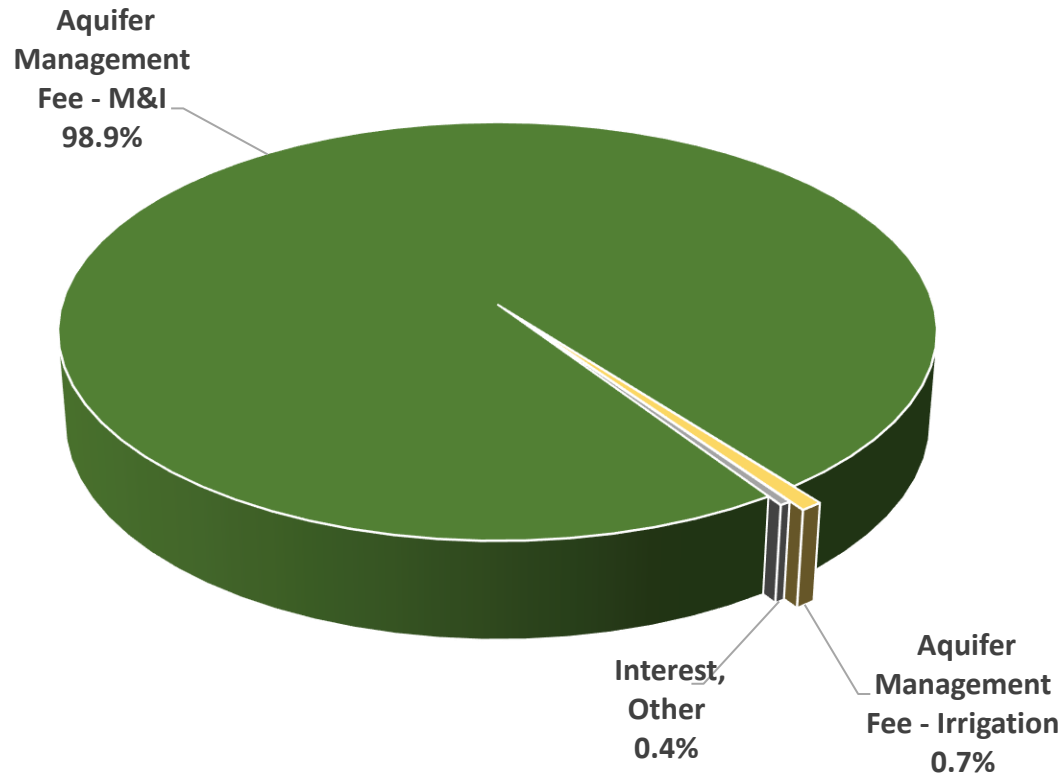
- Collaborate with and inform the EAA Budget Process, as it relates to the EAHCP, EAHCP reserve and EAHCP aquifer management fee.
- Address fiscal issues as they arise and are referred by the Implementing Committee.

EAA FORECAST: 2023-2027

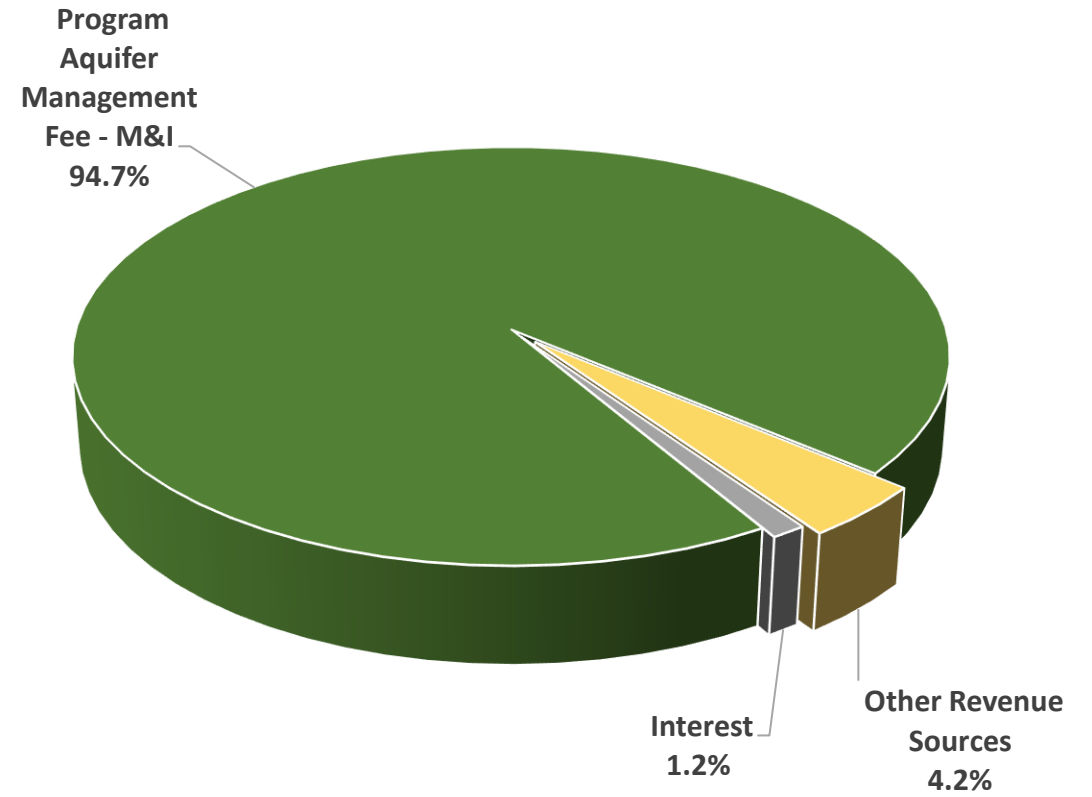


Where does our REVENUE come from?

EAA General Operations



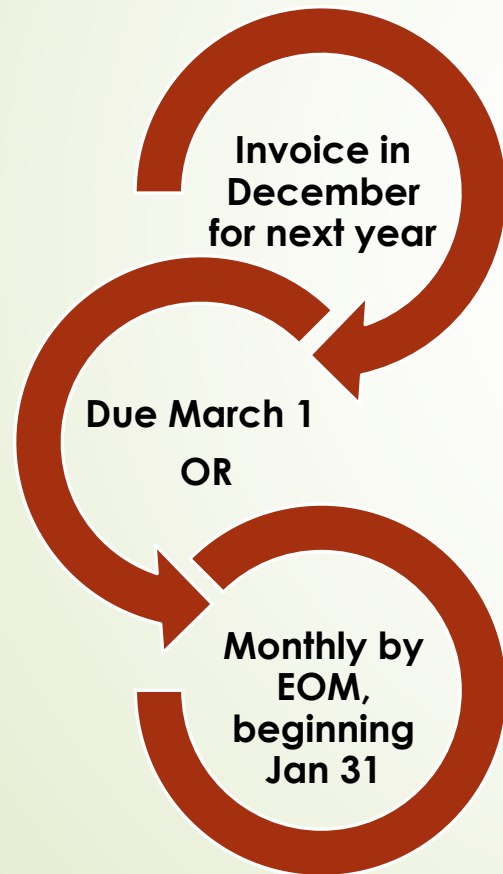
Habitat Conservation Program



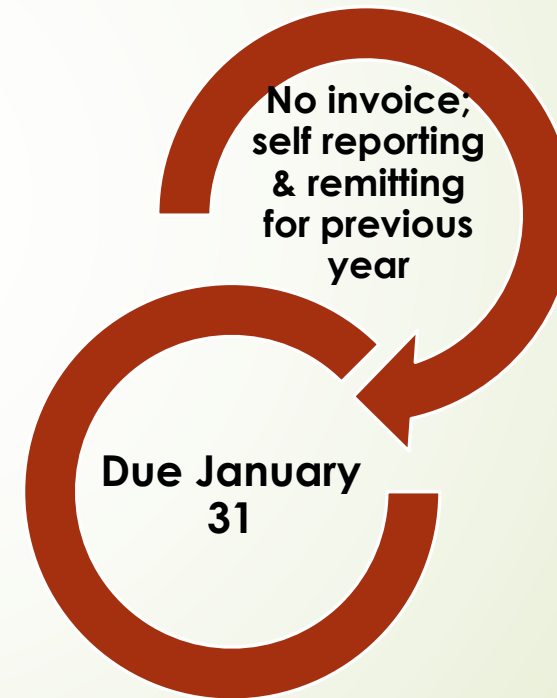
Percentages may not total to 100% due to rounding.

When and how do we get paid?

Municipal & Industrial (M&I) Permit Holders



Irrigation/Agricultural Permit Holders





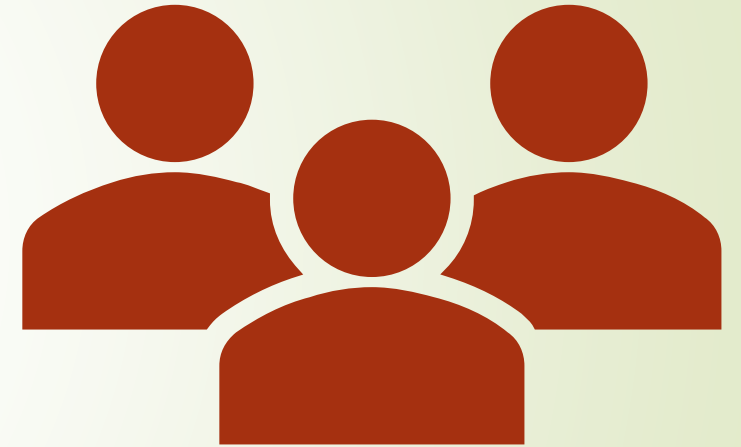
5 YEAR FORECAST

- Assumptions
 - People/Benefits
 - Programs
 - Constituent/Community Reinvestment
- Rate Considerations & Reserves
 - Build/Manage Capacity
 - Maintain Predictability/Stability

5 YEAR FORECAST

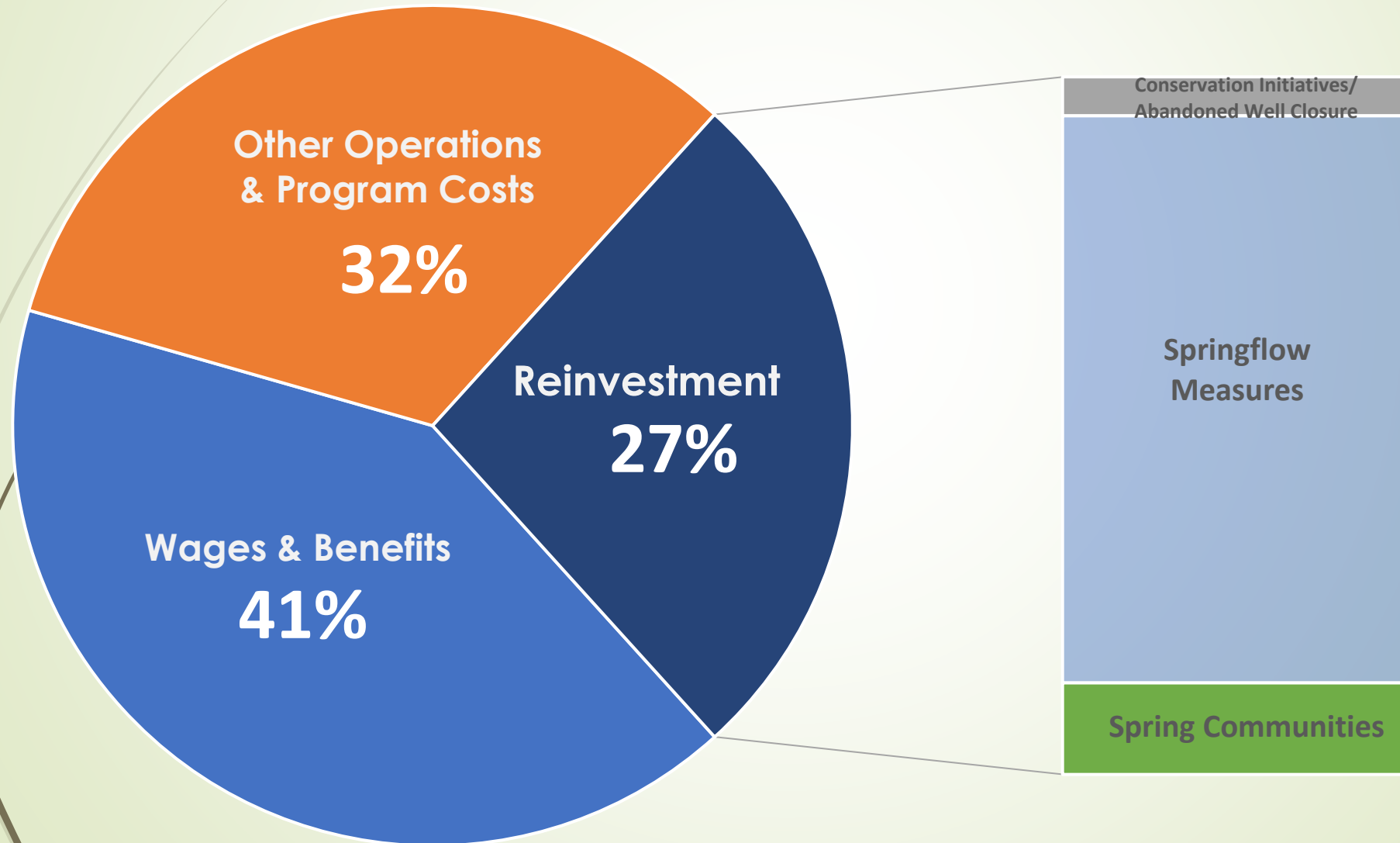
PEOPLE/BENEFITS

- New Positions Proposed
 - 2023: 3 Full Time positions
- Average Combined Annual Cost of Living/Merit Increase: 6%/year
- Insurance:
 - 2023: 18% increase
 - 2024 – 2027: 15% increase/year
- Retirement (TCDRS): 11.09%



5 YEAR FORECAST

CONSTITUENT/COMMUNITY REINVESTMENT



EAHCP EXPENSE PROJECTIONS

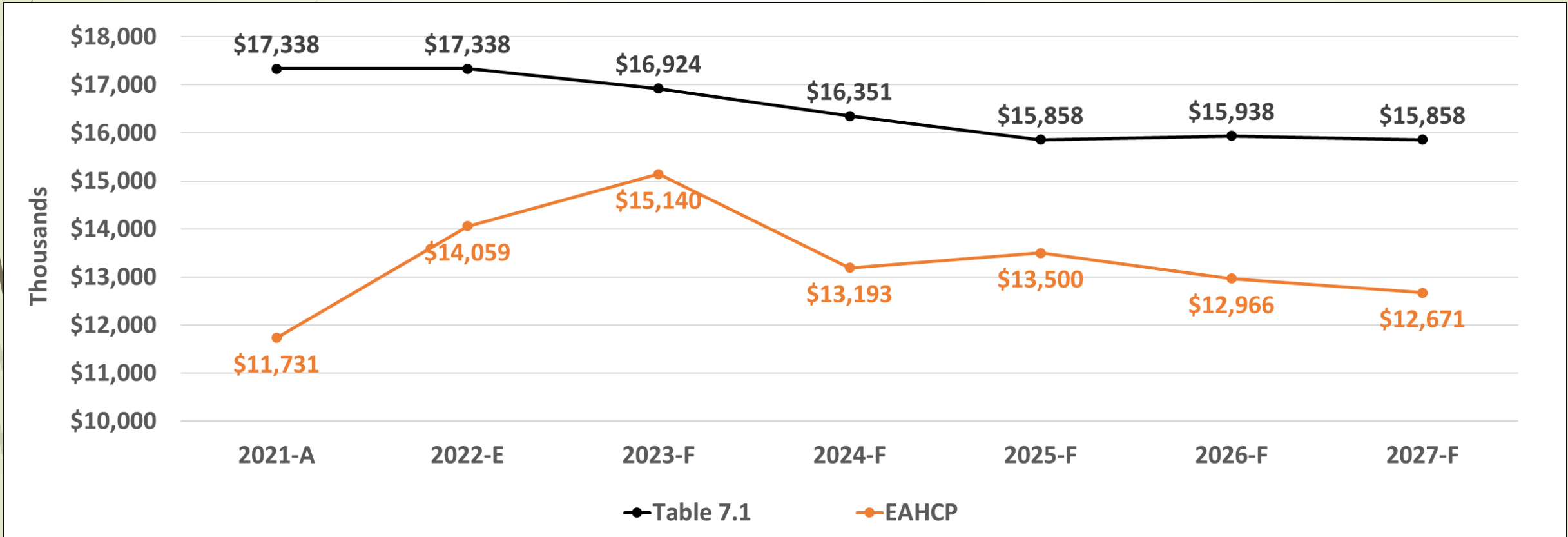
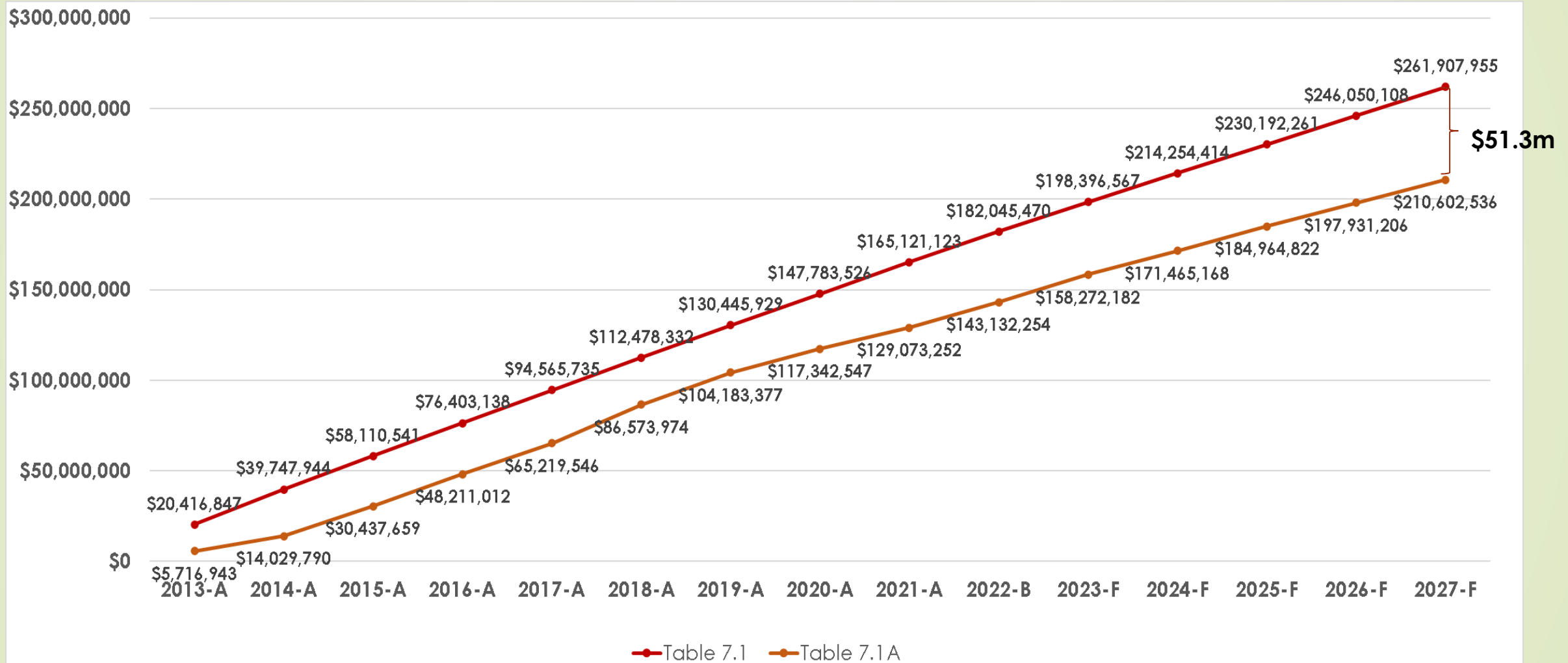
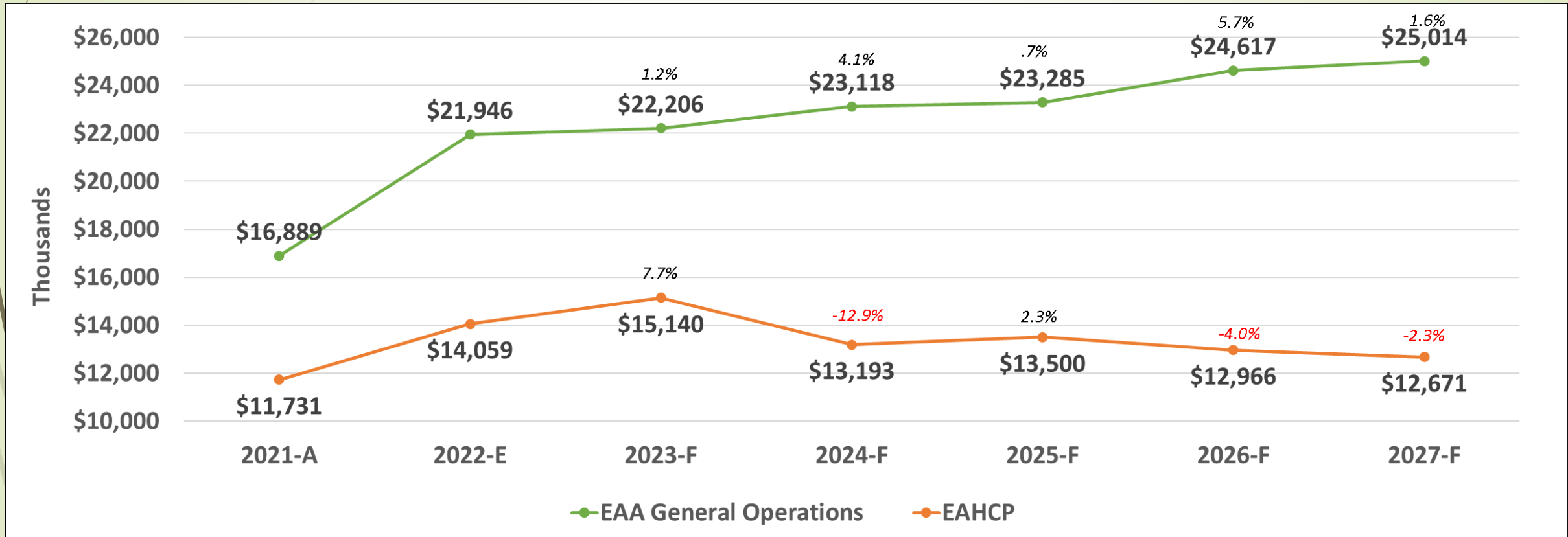


TABLE 7.1 AND TABLE 7.1A COMPARISON



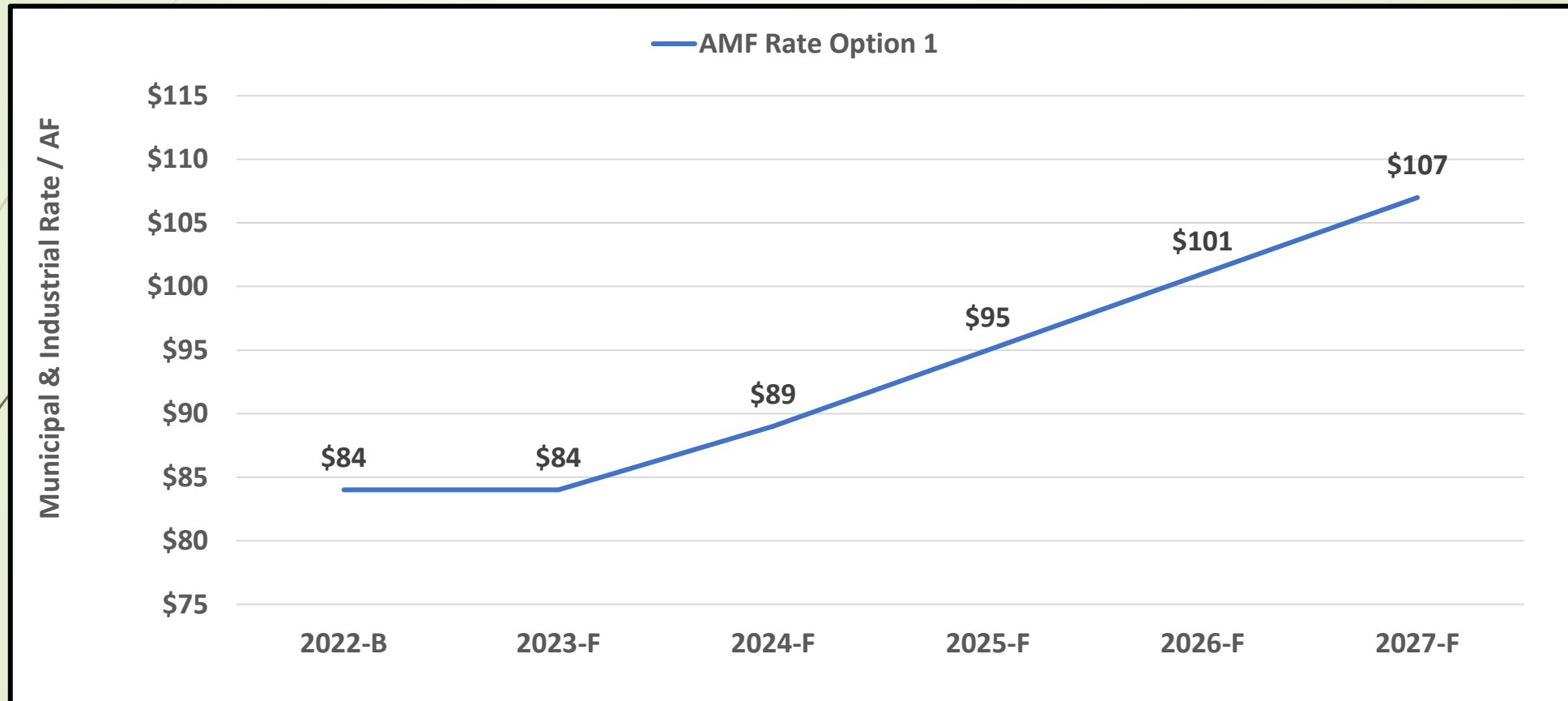
COMBINED EAA/EAHCP EXPENSE PROJECTIONS



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

RESERVE FORECAST

MAINTAIN HCP RESERVE FLOOR AT \$26.4M

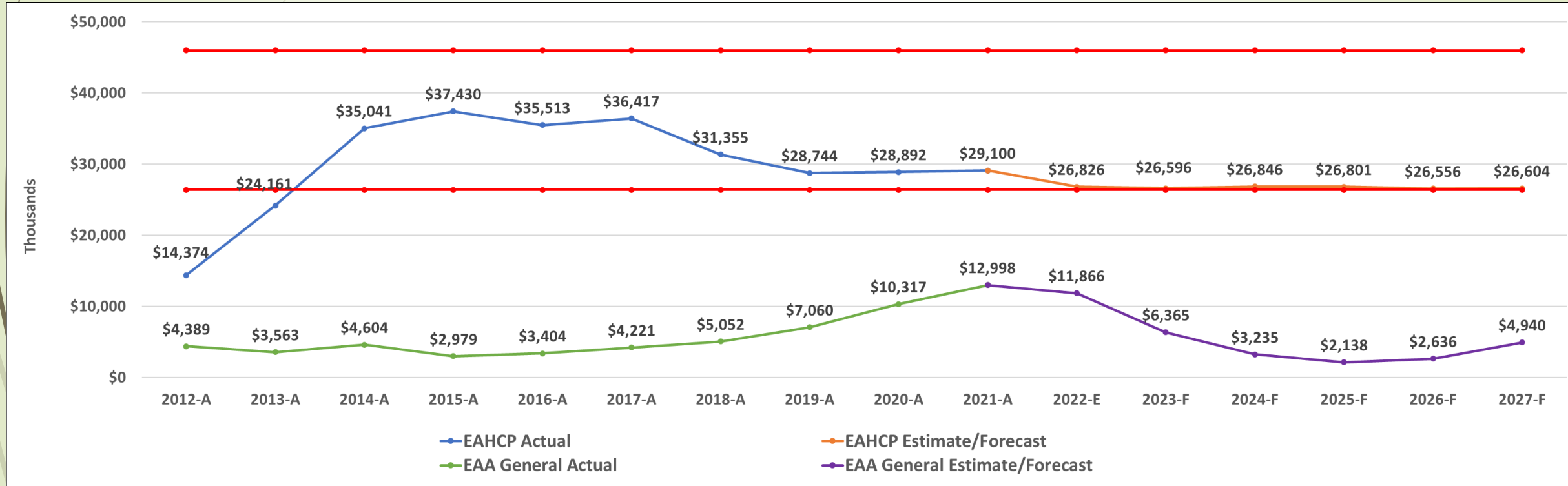


Forecasted Reserves (in Millions)

| | | | | | | |
|--------------------|--------|--------|--------|--------|--------|--------|
| General Operations | \$11.9 | \$6.4 | \$3.2 | \$2.1 | \$2.6 | \$4.9 |
| HCP | \$26.8 | \$26.6 | \$26.8 | \$26.8 | \$26.6 | \$26.6 |

RESERVE PROJECTIONS

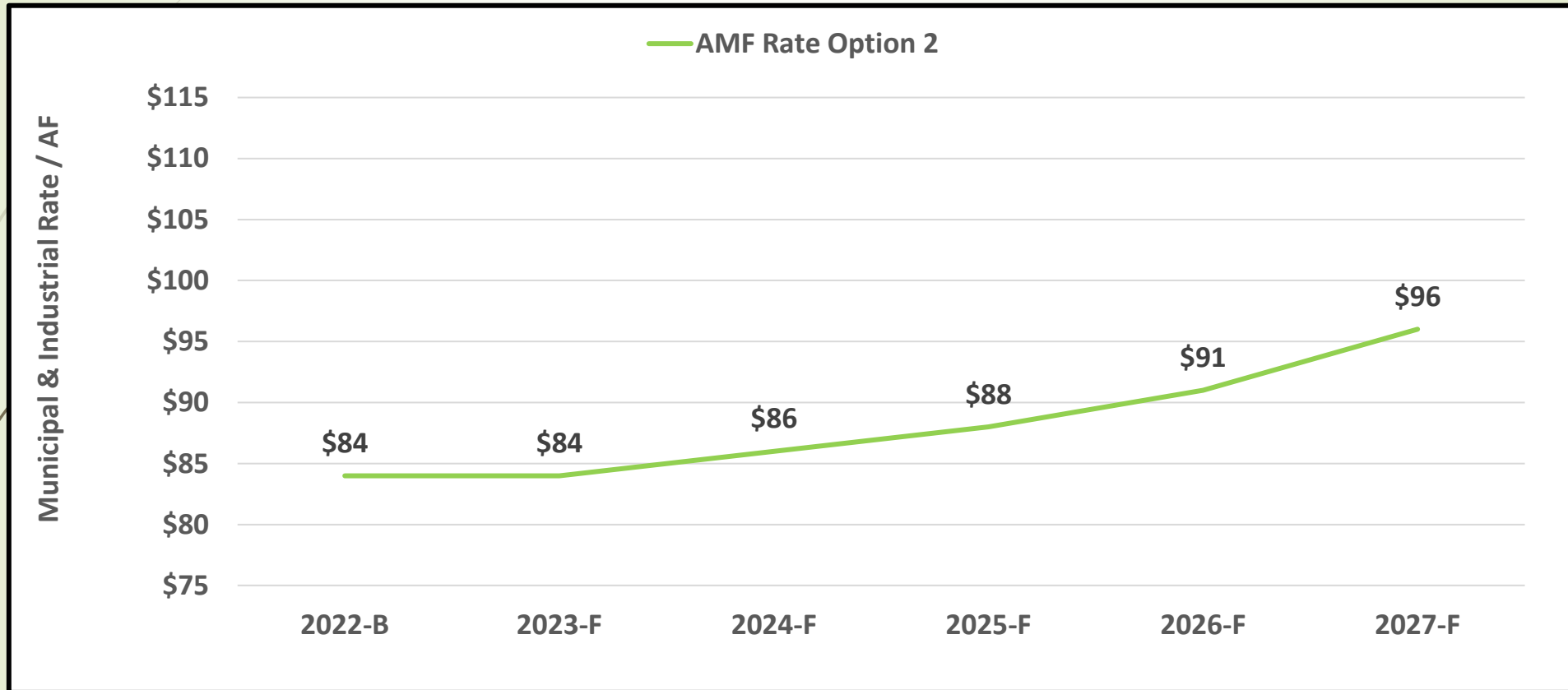
MAINTAIN HCP RESERVE FLOOR AT \$26.4M



| | 2012-A | 2013-A | 2014-A | 2015-A | 2016-A | 2017-A | 2018-A | 2019-A | 2020-A | 2021-A | 2022-E | Forecast Rates | | | | |
|-----------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|----------------|--------|--------|--------|--------|
| | 2012-A | 2013-A | 2014-A | 2015-A | 2016-A | 2017-A | 2018-A | 2019-A | 2020-A | 2021-A | 2022-E | 2023-F | 2024-F | 2025-F | 2026-F | 2027-F |
| EAA General AMF | \$47 | \$47 | \$37 | \$37 | \$40 | \$44 | \$42 | \$46 | \$50 | \$50 | \$53 | \$45 | \$54 | \$60 | \$68 | \$74 |
| HCP Program AMF | \$37 | \$37 | \$47 | \$47 | \$44 | \$40 | \$42 | \$38 | \$34 | \$34 | \$31 | \$39 | \$35 | \$35 | \$33 | \$33 |
| Combined AMF | \$84 | \$84 | \$84 | \$84 | \$84 | \$84 | \$84 | \$84 | \$84 | \$84 | \$84 | \$84 | \$89 | \$95 | \$101 | \$107 |

RESERVE FORECAST

ALTERNATIVE FUNDING STRATEGY

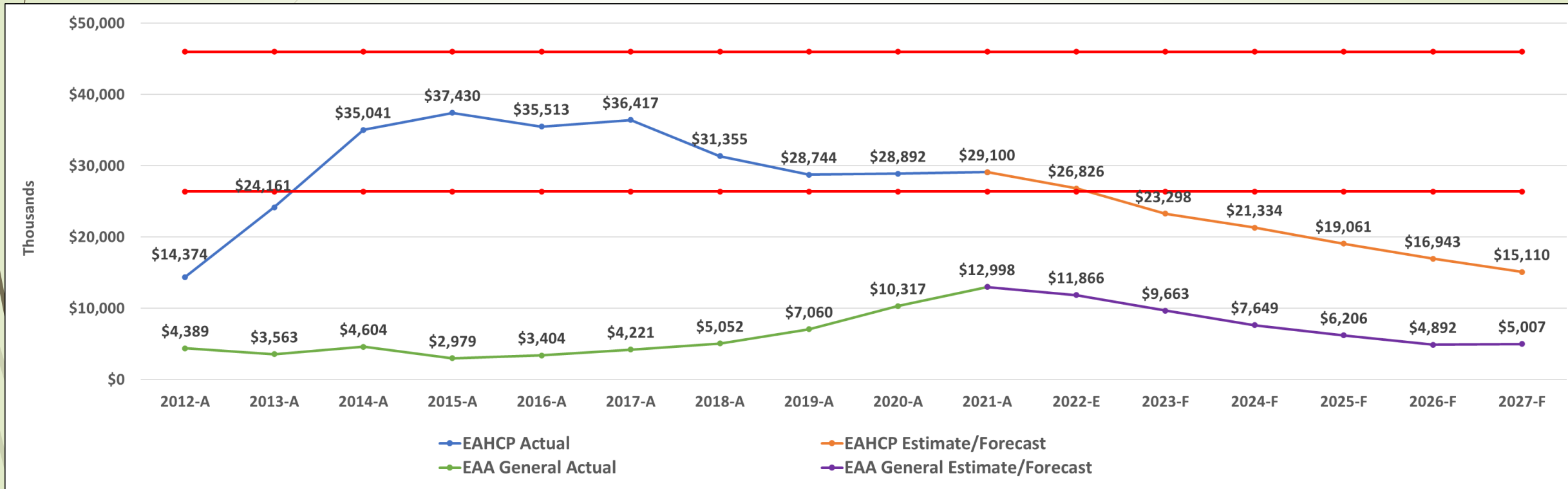


Forecasted Reserves (in Millions)

| | | | | | | |
|--------------------|--------|--------|--------|--------|--------|--------|
| General Operations | \$11.9 | \$9.7 | \$7.6 | \$6.2 | \$4.9 | \$5.0 |
| HCP | \$26.8 | \$23.3 | \$21.3 | \$19.1 | \$16.9 | \$15.1 |

RESERVE PROJECTIONS

ALTERNATIVE FUNDING STRATEGY



| | 2012-A | 2013-A | 2014-A | 2015-A | 2016-A | 2017-A | 2018-A | 2019-A | 2020-A | 2021-A | 2022-E | Forecast Rates | | | | |
|-----------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|----------------|--------|--------|--------|--------|
| | 2012-A | 2013-A | 2014-A | 2015-A | 2016-A | 2017-A | 2018-A | 2019-A | 2020-A | 2021-A | 2022-E | 2023-F | 2024-F | 2025-F | 2026-F | 2027-F |
| EAA General AMF | \$47 | \$47 | \$37 | \$37 | \$40 | \$44 | \$42 | \$46 | \$50 | \$50 | \$53 | \$54 | \$57 | \$59 | \$63 | \$68 |
| HCP Program AMF | \$37 | \$37 | \$47 | \$47 | \$44 | \$40 | \$42 | \$38 | \$34 | \$34 | \$31 | \$30 | \$29 | \$29 | \$28 | \$28 |
| Combined AMF | \$84 | \$84 | \$84 | \$84 | \$84 | \$84 | \$84 | \$84 | \$84 | \$84 | \$84 | \$84 | \$86 | \$88 | \$91 | \$96 |

Board of
Directors
9/13/22

Board of
Directors
10/11/22

Finance
Committee
10/25/22

**Board of
Directors
11/8/22**

Finance
Committee
9/27/22

Public
Meetings
10/12 –
10/18/22

**2023
Budget
Adoption**

2023 Proposed Budget Schedule



QUESTIONS?

APPENDIX B

MEETING AGENDA

2022 EAHCP Budget Work Group

Meeting Agenda

Friday, July 29, 2022

10:00 a.m. - 12:00 p.m.

1. **Confirm attendance**
 2. **Meeting logistics**
 3. **Public comment**
 4. **Receive presentation and consider possible action associated with the EAA's Five-Year Financial Forecast (2023-2027)**
 - Purpose:** To provide an overview of the EAHCP Budget Forecast through 2027
 - Action:** Consideration to make recommendations to the Implementing Committee
 5. **Public comment**
 6. **Future meetings**
-

APPENDIX C

MEETING MINUTES

2022 EAHCP Budget Work Group

Meeting Minutes Friday, July 29, 2022

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

1. Confirm attendance.

Tom Taggart called the meeting to order at 10:01 a.m. Tom called roll for the Work Group. 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 Five-Year Financial Forecast (2023-2027)

Shelly Hendrix presented the EAA's Five-year financial forecast that was presented to the EAA Board on 7-12-22. Provided an overview of how the EAA gets paid through AMF and noted that the 5 year forecast is predicated on assumptions and rate considerations & reserves. Most notably, there will be 3 new full time positions in 2023 as well as an 8.3% insurance rate. Also gave explanation of how constituent/community reinvestment is provided by the EAA. Tom Taggart asked how this relates to the EAHCP and Brock responded with the example of how VISPO dollars are essentially a reinvestment into the community. A comparative look at the projections between Table 7.1 and Table 7.1A indicates expenditures at \$51.3 million below Table 7.1 values. Shelly informed that any forecast updates were based on estimates to the end of the ITP and 2023 EAHCP budget. The EAHCP and combined EAA/EAHCP expense projections through 2027 were provided, in which Myron Hess inquired about the cost increase in 2023 in EAHCP expense. Shelly replied that this was largely due to the consultant costs of the ITP Renewal contract and a capital project in the City of New Braunfels. Myron further inquired why there is declining trend in costs after 2023 and Shelly replied that it is due to a general decline in programmatic expenses as we approach the end of the permit.

Two AMF rate and budget reserve forecast options were presented to the Workgroup for consideration. Option# 1 is Maintain the HCP Floor Reserve Floor at \$26.4 Million, which takes the approach of adjusting the AMF rates annually to fund EAA and EAHCP operations keep the EAHCP reserve amount above the current, established "floor" of \$26.4 million. In this approach, the combined

overall AMF rate would remain the same at \$84 per acre-foot (a/f) in 2023, with the EAA General AMF rate dropping to \$45 but the HCP Program AMF rate raising to \$39. Beyond 2023, the overall AMF rate would see annual increases, peaking at \$107 in 2027 an increase of \$33 over 5 years. This would stem from dramatic increases in the EAA General AMF rate each year while the HCP Program AMF rate would experience a gradual decline. Option# 2 is to consider an Alternative Funding Strategy, which takes the approach of using smaller, incremental increases in the overall AMF rate but allowing the HCP budget reserve to go below its observed floor, decreasing as low as \$15.1 million in 2027 if no VISPO or ASR expense occurs due to drought. Like Option# 1, this approach would keep the combined overall AMF rate the same at \$84 per acre-foot (a/f) in 2023, with the EAA General AMF rate raising to \$54 but the HCP Program AMF rate declining to \$30. Beyond 2023, the overall AMF rate would see small, gradual annual increases, reaching \$96 in 2027 or an increase of \$12 over 5 years. This would be entirely predicated on small increases to the EAA General AMF rate each year whereas the HCP Program rate would remain relatively at the same rate through 2027. This option would employ an additional funding measure such as a possible line of credit or insurance policy to serve as a funding instrument to address VISPO or ASR expense should triggers occur.. This approach was presented to the EAA Board in May 2022 in an economic analysis report by TXP, Inc. It is unclear at this point what line of credit rates or possible insurance products are available to the EAA. Tom remarked that Option# 2 does not reflect any VISPO triggers despite a growing likelihood that a possible trigger event. Scott Stormont cautioned that the VISPO probability analysis is not done until September each year. Tom asserted that he would like to ensure the stakeholders and Implementing Committee the proper time to provide input.. Brock added that the reserves are well-equipped to deal with the potential triggers in the coming years. Discussion of the likelihood of triggering and the effect on reserves was held. Tom stated that this ???

Tom raised the topic of possible recommendations to the Implementing Committee and offered framing the discussion around two overarching issues: AMF rate increases and budget reserve levels. He contended that the EAA should maintain the \$26.4 million floor and increase rates as necessary and advocates for smaller, gradual increases. Moreover, he expressed that the practice of borrowing money (via credit) to cover operating expenses is not sound or sustainable. Brock replied that there would be no issuance of debt in the event of the single VISPO trigger but possibly with multiple triggers. Myron Hess expressed discomfort in continuing to kick the issue down the road each year. Adam Yablonski stated the Work Group cannot advise the EAA on their finances but that it is valuable for the Work Group to give the perspective of rate-payers.

A consensus was reached by the Work Group that the preferable route to any AMF rate increases would be to do so in a small, stairstep increases.

Regarding the topic of budget reserves levels, Tom commented that the reserves were originally designed to pay for springflow protection measures during drought (ex: VISPO and ASR). Contended that rates reflected consensus among the initial partners. He also added that in relation to the reserves, the alternative funding strategy approach of Option# 2 gives the City of San Marcos concern and does not support this approach. Does not feel it is consistent with the clear intent of the Funding and Management Agreement (FMA). He asserted that the \$46 million cap was never a goal but rather a calculated amount to cover the initial years of a repeat of the drought of record (DOR).. Any remaining reserves after 2027 the FMA are directed to be returned back to the Permittees at the end of the Incidental Take Permit. Adam felt that we do not have enough information yet to decide which strategy is better. He also suggested a ramp-down strategy for the reserve floor over the upcoming years with consideration of any suggested amount for the ITP rollover balance.

A consensus was reached to continue to seek information from EAA staff on the exploratory search into alternative funding mechanisms and reserve effects. No consensus on the reserve floor was reached on any suggested changes to the reserve levels, due to the lack of clear specifics on the differences related to reserve handling and whether an increase should start in 2023.

4. Public comment

Dianne Wassenich of the San Marcos River Foundation reminded the group that when the EAHCP started, there was a huge apprehension on drought implications and not having a reserve in place. Advocated for the stair-step rate increase approach, for it helps with acceptance and understanding. Concurred that it has been an avoided issue and cannot continue to be postponed.

5. Future meetings

No date was set for any additional Work Group meetings in 2022.

6. Adjourn – 11:57 a.m.
