



PUBLIC SERVICES -
WATER / WASTEWATER UTILITIES

Mr. Roland Ruiz, General Mgr.
Edwards Aquifer Authority
900 E. Quincy
San Antonio, TX 78215

CERTIFIED MAIL: 7015 0640 0006 9629 2577

Re: Fiscal Year 17 Budget Proposal

Dear Mr. Ruiz,

The City of San Marcos would like to thank the Board of Directors of the Edwards Aquifer Authority for this opportunity to address them regarding the fiscal year 2017 budget proposal.

The Edwards Aquifer Habitat Conservation Plan was the result of a stakeholder based effort (EARIP) mandated by our legislature to develop a sustainable program for utilization of the Edwards Aquifer as water supply resource, a recreational resource and yet a sustainable natural ecosystem for multiple endangered species living in the spring and river systems issuing from the aquifer. Over eighty groups participated in the multi-year effort that culminated in the plan and led to the execution of the multiple program documents needed to secure an incidental take permit from the USF&W Service. These documents included the Funding and Management Agreement of which the EAA was a signatory as well as SAWS, Texas State University, and the cities of New Braunfels and San Marcos.

The EAHCP started under harsh conditions during a severe drought and despite adversity has proven a great success in improving habitat and bolstering flow protection so that the system can withstand a repeat of drought of record conditions. The program has been funded by Edwards Aquifer management fees with the amount and utilization of these funds being prescribed in the funding and management agreement and HCP documents. We believe the current budget method proposed related to the Program funding AMF level and the effect on the program reserves is not compliant with the Funding and Management or the Implementing Agreement nor the spirit of the EARIP and resulting HCP.

The FY 2017 Budget Proposal underfunds the HCP program by nearly \$3.7 million dollars. Section 5.2.1 of the Funding and Management Agreement defines the HCP annual funding obligation by EAA to be the amount required in the annual program budget to accomplish tasks listed in table 7.1. For fiscal year 2017 the annual program requirement shown in the proposed operating budget is \$17.3. However, the proposed \$34/AF aquifer management fee for the HCP produces only \$13.6. The \$3.7M deficit in funding for the year is made up by using HCP reserve funds currently projected at \$33M. This budget proposal does not fund the program according to the definition of the annual funding obligation but rather shifts revenue from the program.

In fact, the operating net income proposed increases the general operating reserves to nearly 30% (\$5M) versus the 15% minimum level defined by the Board policy.

The large reserve amounts evolve from the reality that the flow sustaining elements of the HCP, which are the VISPO and ASR/Forbearance portions, require very high payments in years where drought conditions trigger the program requirements. The reserve amounts will be exhausted during a repeat of the drought of record. The "cap" on the reserve amount was crafted to fully fund a drought of record cycle but no more. After the cap is reached, any excess funding was specified to reduce the AMF level in the following years. Once the cap is reached, the EAA permittees have in essence pre-paid the program expenses for a drought of record recurrence. The projected reserve in January is 73% toward that goal. The reserve is part of the financial assurance that USF&W relies upon in granting a 15 year ITP for covered activities such as Edwards water usage. The HCP program reserve would likely reach the cap in a very few years if program funding continues at full program funding levels.

The signing of the Refugia contract will further exacerbate the effect adding another \$6M to the reserve drop, for a total \$9.7M reduction in the reserves. This equals about 400% of the total reserve amount for the EAA General Operations budget (15% is about \$2.5M). This deficit funding "toggle" approach to the AMF portions defies sound business practice, using savings (reserves) to pay for annual program expenses.

In addition, gutting the reserve would mean no "pre-paid" drought expense and the need to increase the HCP portion of the AMF would surface in a drought condition triggering the VISPO and ASR/Forbearance costs. The fee would need to be increased to offset the large deficit in reserves (approximately \$36 M as shown in forward projections) and be levied on the permittees already paying the \$84 fee. This would likely require permittees to increase water rates during a drought when usage is restricted (fewer units are sold-which could be a considerable spike) and be extremely unpopular with customers. Higher rates when citizens can't use the water.

The sensible alternative is to raise the operations portion of the AMF if truly needed to fund court ordered settlements and other operating costs, fully fund the HCP program annual requirement as agreed to in the funding and management agreement and after the reserve cap is reached, allow surplus amounts to reduce the annual requirement, reducing the HCP AMF, mitigating the effect.

We respectfully ask the EAA Board to stay the course and approve a budget with an HCP aquifer management fee level that fully funds the annual program without using reserve funds. This action will be compliant with the HCP agreements we have made with each other and USF&W Service.

Sincerely,



Thomas P. Taggart
Executive Director, Public Services
City of San Marcos

cc: Luana Buckner, Chair, EAA Board
EAA Board of Directors
Jared Miller, City Manager, City of San Marcos