

Department of Water Resources

JLBC: Matt Busby
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DESCRIPTION	FY 2006 ACTUAL	FY 2007 ESTIMATE	FY 2008 JLBC	FY 2009 JLBC
OPERATING BUDGET				
<i>Full Time Equivalent Positions</i>	198.7	212.7	194.7	194.7
Personal Services	9,055,000	8,667,400	8,667,400	8,667,400
Employee Related Expenditures	2,700,400	2,832,200	2,844,300	2,844,300
Professional and Outside Services	512,200	1,538,500	1,538,500	1,538,500
Travel - In State	405,400	407,200	407,200	407,200
Travel - Out of State	30,300	30,300	30,300	30,300
Other Operating Expenditures	3,142,300	2,563,600	2,350,200	2,350,200
Equipment	1,172,300	139,500	139,500	139,500
OPERATING SUBTOTAL	17,017,900	16,178,700	15,977,400	15,977,400
SPECIAL LINE ITEMS				
Adjudication Support	0	500,000	0	0
Assured and Adequate Water Supply Administration	0	2,800,000	1,100,400	1,100,400
Automated Groundwater Monitoring	0	500,000	500,000	500,000
Arizona Water Protection Fund Deposit	0	0	0	0
Rural Water Studies	1,903,900	1,999,100	1,499,100	1,499,100
AGENCY TOTAL	18,921,800	21,977,800	19,076,900	19,076,900
FUND SOURCES				
General Fund	18,921,800	20,877,800	17,976,500	17,976,500
<u>Other Appropriated Funds</u>				
Assured and Adequate Water Supply Administration Fund	0	1,100,000	1,100,400	1,100,400
SUBTOTAL - Other Appropriated Funds	0	1,100,000	1,100,400	1,100,400
SUBTOTAL - Appropriated Funds	18,921,800	21,977,800	19,076,900	19,076,900
Other Non-Appropriated Funds	23,545,700	64,752,400	35,752,400	37,752,400
Federal Funds	697,100	843,600	284,300	208,800
TOTAL - ALL SOURCES	43,164,600	87,573,800	55,113,600	57,038,100
CHANGE IN FUNDING SUMMARY				
	<u>FY 2007 to FY 2008 JLBC</u>		<u>FY 2007 to FY 2009 JLBC</u>	
	<u>\$ Change</u>	<u>% Change</u>	<u>\$ Change</u>	<u>% Change</u>
General Fund	(2,901,300)	(13.9%)	(2,901,300)	(13.9%)
Other Appropriated Funds	400	0.0%	400	0.0%
Total Appropriated Funds	(2,900,900)	(13.2%)	(2,900,900)	(13.2%)
Non Appropriated Funds	(29,559,300)	(45.1%)	(27,634,800)	(42.1%)
Total - All Sources	(32,460,200)	(37.1%)	(30,535,700)	(34.9%)

AGENCY DESCRIPTION — The Department of Water Resources administers and enforces Arizona's groundwater and surface water law, as well as legally representing the state's water rights. The department also participates in surveying water level and quality and planning flood control.

PERFORMANCE MEASURES	FY 2004	FY 2005	FY 2006	FY 2008
	Actual	Actual	Actual	JLBC
• % of Colorado River entitlement used Comments: DWR reports that it is likely that 100% of its entitlement will always be used.	100	100	100	100
• % of Arizona's unclaimed Colorado River entitlement that is recharged via the Water Banking Authority	95	95	95	95
• Number of dams in a non-emergency unsafe condition	13	13	13	13
• Customer satisfaction rating for Hydrology Program (Scale 1-8)	NA	NA	8.0	8.0
• Number of rural water studies initiated	--	--	4	4
• Number of rural water studies completed in current year	--	--	--	4

CHANGES FROM FY 2007

Operating Budget

The JLBC includes \$15,977,400 and 177.2 FTE Positions from the General Fund for the operating budget in FY 2008 and FY 2009. This amount would fund the following adjustments:

Standard Changes	GF	FY 2008	FY 2009
		\$(46,400)	\$(46,400)

The JLBC includes a decrease of \$(46,400) from the General Fund in FY 2008 and FY 2009 for standard changes.

One-Time AZNet Appropriation	GF	(154,900)	(154,900)

The JLBC includes a decrease of \$(154,900) from the General Fund in FY 2008 and FY 2009 to reflect one-time appropriation for AZNet telecommunication charges.

Special Line Items

Adjudication Support

The JLBC includes no funding for Adjudication Support in FY 2008 and FY 2009. This amount would fund the following adjustments:

One-Time Funding for Adjudication Support	GF	(500,000)	(500,000)

The JLBC includes a decrease of \$(500,000) from the General Fund in FY 2008 and FY 2009 to reflect one-time funding for Adjudication Support.

A.R.S. § 45-251 requires the Department of Water Resources (DWR) to provide technical and administrative support to judicial proceedings involving general stream adjudications for the Gila and Little Colorado River. The purpose of the adjudications is to determine the nature,

extent, and priority of the water rights claims on the 2 rivers. Technical support for the adjudication courts includes the preparation of hydrographic survey reports and technical reports on specific issues within the adjudications. In addition, DWR is required to keep track of the Statement of Claimants and implement court rulings that are in favor of the claimants.

With the \$500,000 in one-time money, DWR has established 8 temporary positions, 4 of which are currently filled. In addition, 2 graduate students have been hired as interns. Excluding the additional \$500,000 in FY 2007, DWR contributes \$605,000 and 8.3 FTE Positions from their operating budget toward the adjudications. Of that amount, 5 FTE Positions are solely dedicated to this program.

In 1953, Congress passed the McCarran Amendment, granting state courts jurisdiction over the adjudication of the tribal water rights. As part of this amendment, if the states are unsuccessful in completing the adjudications, the adjudications will be moved to federal courts. The impact of the current DWR staffing levels on this jurisdictional issue is still to be determined.

Assured and Adequate Water Supply Administration

The JLBC includes \$1,100,400 and 12 FTE Positions from the Assured and Adequate Water Supply Administration (AAWS) Fund for the AAWS Administration Special Line Item in FY 2008 and FY 2009. These amounts would fund the following adjustments:

Standard Changes	OF	400	400

The JLBC includes an increase of \$400 from the AAWS Administration Fund in FY 2008 and FY 2009 for standard changes.

One-Time Funding

for AAWS GF (1,700,000) (1,700,000)

The JLBC includes a decrease of \$(1,700,000) and (12) FTE Positions from the General Fund in FY 2008 and FY 2009 to reflect one-time funding for the Assured and Adequate Water Supply Program.

Laws 2005, Chapter 217 established the Assured and Adequate Water Supply Administration Fund to provide for the costs and expenses incurred by DWR of Water Resources when determining and declaring assured and adequate water supplies. The AAWS Administration Fund is subject to appropriation and consists of monies that are paid to the DWR for applications relating to assured and adequate water supplies. Previously, fees were deposited into the General Fund.

Prior to the creation of this Special Line Item (SLI), the AAWS program was funded from the department's operating budget at a General Fund cost of approximately \$1,700,000 per year. This amount was shifted to this SLI and received one-time funding from the General Fund in FY 2007 due to the creation of the new fund.

The fund began collecting revenue on August 12, 2005 and approximately \$85,000 has been deposited into the fund through the first quarter of FY 2007. Part of the reason for the low collections this year may be due to applications being submitted before new fees became effective in September 2006. It is also unclear what effect the slowing in the housing market will have on collections. DWR assumed \$1,100,000 in revenue for FY 2008 and FY 2009 in their budget request.

The impact of eliminating the General Fund appropriation to the AAWS Special Line Item depends on the amount of revenue that the AAWS fees generate. One possible impact is that if the fees generate \$1.7 million of revenues, there will be no change to the historical level of resources. However, DWR would not be able to decrease the processing time for the applications as originally intended.

If the fee collections are significantly less than \$1.7 million, DWR would have to reduce the size of the program, which may increase the time to process applications. However, a slowing of the housing market, as discussed above, would reduce not only the amount of fees collected but also the workload for the program.

Monies in this Special Line Item are to provide for the operating costs of the Assured and Adequate Water Supply Program. All new subdivisions must receive a Certificate of Assured or Adequate Water Supply. A Certificate of Assured Water Supply is awarded to developers within the 5 Active Management Areas (AMAs) and demonstrates the availability of water for the next 100 years. New developers outside the 5 AMAs must obtain a determination of the quantity and quality of water available in the new subdivision before any lots may be sold. A Certificate of Adequate Water Supply is awarded if DWR determines the

subdivision has a 100-year supply of water. If the water is determined to be inadequate, lots may still be sold, but buyers must be notified of the determination.

Automated Groundwater Monitoring

The JLBC includes \$500,000 and 2 FTE Positions from the General Fund for Automated Groundwater Monitoring in FY 2008 and FY 2009. These amounts are unchanged from FY 2007 when this program was established.

The monies will provide for the installation, operation, and maintenance of new automated groundwater measuring instruments, or transducers. The transducers provide daily measurements of groundwater levels and expedite analysis for various program activities for assured and adequate water supply, recharge, developing rural water budgets, and water rights studies.

Arizona Water Protection Fund Deposit

The JLBC includes no funding from the General Fund and a session law change to A.R.S. § 45-2112 suspending the statutory \$5,000,000 General Fund appropriation to the Water Protection Fund in FY 2008 and FY 2009. This amount is unchanged from FY 2007.

The Arizona Water Protection Fund, administered by the Water Protection Fund Commission, provides grants to organizations for the preservation, enhancement, and restoration of rivers, streams, and riparian environments. This appropriation has been suspended since FY 2004.

Rural Water Studies

The JLBC includes \$1,499,100 and 3.5 FTE Positions from the General Fund for Rural Water Studies in FY 2008 and FY 2009. These amounts would fund the following adjustments:

Eliminate Drought

Program Funding GF (500,000) (500,000)

The JLBC includes a decrease of \$(500,000) and (6) FTE Positions from the General Fund in FY 2008 and FY 2009. The reduction is the result of the unauthorized use of Rural Water Studies Funds in FY 2007 for other purposes.

Monies in this Special Line Item are used to assess local water use needs and to develop plans for sustainable future water supplies in rural areas outside the state's AMAs. The current AMAs are Prescott, Phoenix, Pinal, Tucson, and Santa Cruz. These studies are administered through partnerships with local resource agency officials and stakeholders. Partnerships generally require local entities to provide some resources to match General Fund receipts. The studies are primarily conducted by the local entity, with the department providing technical advice and financial assistance. Currently, models are in progress in only 4 of the 17 partnerships.

Despite the limited number of partnerships that have models in progress, DWR diverted \$500,000 in FY 2007 to create a Statewide Conservation and Drought Office. The

Executive requested approximately \$600,000 in their FY 2006 and FY 2007 budget for this new office. However, the Legislature did not fund the office in the enacted FY 2007 budget.

As a result, funding for this SLI has been decreased to match the current funding level for Rural Water Studies and a new footnote would reiterate that the line item shall only be used for the actual rural water studies themselves and directly related staff costs. (*See Footnotes.*)

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FORMAT — Operating Lump Sum with Special Line Items by Agency

FOOTNOTES

Standard Footnotes

It is the intent of the Legislature that monies in the Assured and Adequate Water Supply Special Line Item will only be spent for the Assured and Adequate Water Supply Program and not be made available for other department operating expenditures.

Any transfer to or from the amount appropriated for the Assured and Adequate Water Supply Special Line Item shall require review by the Joint Legislative Budget Committee.

The department shall report to the Joint Legislative Budget Committee on the amount of fees collected by the Assured and Adequate Water Supply Program within 30 days after the end of each calendar year quarter.

Funding appropriated for the purposes of Rural Water Studies is exempt from the provisions of A.R.S. § 35-190, relating to the lapsing of appropriations through June 30, 2009.

New Footnotes

It is the intent of the Legislature that monies in the Rural Water Studies Special Line Item will only be spent to assess local water use needs and to develop plans for sustainable future water supplies in rural areas outside the state's AMAs and not be made available for other department operating expenditures.

Any transfer to or from the amount appropriated for the Rural Water Studies Special Line Item shall require review by the Joint Legislative Budget Committee.

(Please refer to the Rural Water Studies Special Line Item above for additional information regarding these 2 footnotes.)

Deletion of Prior Year Footnotes

The JLBC deletes the footnote requiring the department to submit an expenditure plan for monies in the Assured and Adequate Water Supply Special Line Item.

The JLBC deletes the footnote regarding funding for the Automated Groundwater Monitoring Special Line Item.

STATUTORY CHANGES

The JLBC would continue a session law change to A.R.S. § 45-2112 to suspend the statutory \$5,000,000 transfer from the General Fund to the Arizona Water Protection Fund in FY 2008 and FY 2009.

OTHER ISSUES FOR LEGISLATIVE CONSIDERATION

Water Banking

The Arizona Water Banking Authority (AWBA) provides for the storage of future water supplies for any county requiring distributions above its normal allotment. In addition, the state's AMAs may purchase water storage credits with groundwater withdrawal fees and a portion of the 4% property tax collected by the Central Arizona Project. Rural counties receive credits solely through expenditure of General Fund monies. The AWBA may also enter into interstate water banking agreements.

The AWBA entered into an agreement with the State of Nevada and will receive a total of \$330 million in exchange for 1.25 million acre feet of water banking credits. Of the \$330 million, \$100 million is to be used to guarantee the availability of the 1.25 million credits for Nevada. If the additional \$100 million is not needed to guarantee the credits in the short term, Arizona may use this amount for its own purposes, subject to legislative appropriation. Any amount used from the \$100 million to purchase storage credits will be repaid, with interest. AWBA has received the \$100 million from Nevada. The remaining \$230 million will be paid in 10 annual payments of \$23 million beginning in Calendar Year 2009.

DWR spent approximately \$26 million in FY 2005 and \$11 million in FY 2006 to purchase water pursuant to the agreement with Nevada and anticipates spending another \$28 million by December 2006. These expenditures are used for purposes related to the water banking agreement with Nevada and are non-appropriated. Laws 2005, Chapter 332 requires the Water Banking Authority to receive a legislative appropriation to expend funds received through the water banking agreement with Nevada that are used for purposes outside of the contractual agreement with Nevada.

SUMMARY OF FUNDS	FY 2006 Actual	FY 2007 Estimate
Administrative Fund (WCA3025/A.R.S. § 45-113)		Non-Appropriated
Source of Revenue: A portion of application, certificate, license, permit, and inspection fees.		
Purpose of Fund: To refund, without interest, fees paid to the department in error.		
Funds Expended	0	0
Year-End Fund Balance	2,400	2,400
Assured and Adequate Water Supply Administration Fund (WCA2509/A.R.S. § 45-580)		Appropriated
Source of Revenue: Fees for applications relating to adequate and assured water supplies.		
Purpose of Fund: To support the costs and expenses incurred when determining and declaring assured and adequate water supplies.		
Funds Expended	0	1,100,000
Year-End Fund Balance	101,900	104,900
Augmentation and Conservation Assistance Fund (WCA2213/A.R.S. § 45-615)		Non-Appropriated
Source of Revenue: A portion of fees for groundwater withdrawal in Active Water Management Areas (AMA).		
Purpose of Fund: Generally, to support water supply augmentation projects, such as groundwater recharge, as well as AMA conservation programs. By law, each AMA has its own sub-account within the fund. The Year-End Fund Balances represent non-obligated cash and do not reflect monies already granted but not yet paid.		
Funds Expended	983,300	992,500
Year-End Fund Balance	1,093,000	758,500
Dam Repair Fund (WCA2218/A.R.S. § 45-1212.01)		Non-Appropriated
Source of Revenue: Repayments for emergency remedial measures undertaken by the department on behalf of dam owners, as well as from dam safety inspection fees, filing fees, and legislative appropriations.		
Purpose of Fund: Generally, to implement emergency remedial measures on privately owned dams as necessary to protect life and property, as well as to offer loans and grants for private dam owners to make non-emergency repairs.		
Funds Expended	1,230,600	200,000
Year-End Fund Balance	262,800	227,800
Federal Grants (WCA2000/A.R.S. § 45-105)		Non-Appropriated
Source of Revenue: Grants from the federal government.		
Purpose of Fund: To support water protection, rural water studies, and water banking initiatives, as well as certain operating expenses.		
Funds Expended	697,100	843,600
Year-End Fund Balance	1,800	0
Flood Warning System Fund (WCA1021/A.R.S. § 45-1503)		Non-Appropriated
Source of Revenue: Legislative appropriations, grants, and contributions from other public agencies.		
Purpose of Fund: To develop a flood warning system, purchase flood warning equipment, and provide assistance to local entities on a cost sharing basis for the planning, design, installation, operation, and maintenance of flood warning systems.		
Funds Expended	0	0
Year-End Fund Balance	109,700	112,500
General Adjudications Fund (WCA2191/A.R.S. § 45-260)		Non-Appropriated
Source of Revenue: Court fees paid by water claimants and from legislative appropriations.		
Purpose of Fund: To cover postage and other costs of serving legal notices to water rights claimants and of publicizing court proceedings. Also to remit filing fees to the courts.		
Funds Expended	24,100	1,800
Year-End Fund Balance	39,900	58,100

SUMMARY OF FUNDS	FY 2006 Actual	FY 2007 Estimate
Indirect Cost Recovery Fund (WCA9000/A.R.S. § 45-104)		Non-Appropriated
Source of Revenue: Cost allocation transfers of federal and other non-appropriated funds.		
Purpose of Fund: To provide various indirect administrative services, including security and cashiering.		
Funds Expended	889,500	1,961,300
Year-End Fund Balance	1,894,100	1,449,200
Interagency Service Agreement Fund (WCA2500/A.R.S. § 35-142)		Non-Appropriated
Source of Revenue: From Arizona county payments.		
Purpose of Fund: To contract for flood plain management services.		
Funds Expended	266,700	270,000
Year-End Fund Balance	438,300	378,300
Production and Copying Fund (WCA2411/A.R.S. § 45-115)		Non-Appropriated
Source of Revenue: From monies received for department publications and for copies of department records. Any amount in excess of \$20,000 at the end of each fiscal year reverts to the General Fund.		
Purpose of Fund: To produce and distribute department publications, as well as to copy department records.		
Funds Expended	52,400	55,000
Year-End Fund Balance	14,400	14,400
Publications and Mailings Fund (WCA2410/A.R.S. § 45-116)		Non-Appropriated
Source of Revenue: From monies received for the publication and mailing of legal notices as required by law. Any amount in excess of \$20,000 at the end of each fiscal year reverts to the General Fund.		
Purpose of Fund: To publish and mail legal notices.		
Funds Expended	21,800	30,000
Year-End Fund Balance	13,800	8,800
Purchase and Retirement Fund (WCA2474/A.R.S. § 45-615)		Non-Appropriated
Source of Revenue: A portion of fees for groundwater withdrawal in AMAs.		
Purpose of Fund: To purchase and retire grandfathered groundwater rights, those entitlements legally owned or used before the creation of an AMA in a given area. By law, each AMA has its own sub-account within the fund.		
Funds Expended	0	0
Year-End Fund Balance	24,700	32,400
Statewide Donations Fund (WCA2025/A.R.S. § 45-105)		Non-Appropriated
Source of Revenue: Grants, gifts or donations of money or other property from any source.		
Purpose of Fund: Funds may be used for any purpose consistent with this duties and powers of the Director of the Department of Water Resources as described in statute.		
Funds Expended	140,800	125,000
Year-End Fund Balance	390,900	265,900
State Water Storage Fund (WCA2287/A.R.S. § 45-897.01)		Non-Appropriated
Source of Revenue: Since January 1, 1997, from interest only. Prior to that date, from property taxes levied by multi-county water conservation districts. These taxes are now directed to the Water Banking Fund.		
Purpose of Fund: To build underground water storage demonstration projects in conservation districts and to purchase excess Central Arizona Project (CAP) water. The department provides administrative support for this fund, but control of expenditures is vested with the Central Arizona Water Conservation District (CAWCD).		
Funds Expended	15,700	0
Year-End Fund Balance	0	0

SUMMARY OF FUNDS	FY 2006 Actual	FY 2007 Estimate
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Arizona Water Banking Fund (WCA2110/A.R.S. § 45-2425) Partially-Appropriated

Source of Revenue: General Fund appropriations and fees associated with the purchase, lease, storage, accreditation, and delivery of Colorado River water to municipalities and industrial water users. The Legislature appropriated \$500,000 in both FY 2003 and FY 2004, but did not appropriate any funds in FY 2005 through FY 2007. Also funded from a portion of the 4% property tax collected by CAWCD to pay for water storage. By law, each AMA has its own sub-account within the fund. This fund operates on the calendar year. Because fees and taxes are collected at the end of the fiscal year, the Year-End Fund Balances are not reflective of the calendar year-end balances. Pursuant to an interstate water banking agreement with Nevada, the fund received \$73 million in FY 2006. The remaining payments will begin in FY 2009. The only appropriations from this fund are for any monies received through the water banking agreement with Nevada that are used for purposes outside of contractual agreement with Nevada (Laws 2005, Chapter 332). Pursuant to Laws 2006, Chapter 344, \$13.5 million was deposited into the account in FY 2007 for the purpose of carrying out the states obligations related to Indian Firming.

Purpose of Fund: To purchase and store the unused portion of Arizona's Colorado River water allotment. Also, to carry out the obligations of the state related to Indian Firming. The department provides administrative support for this fund, but control of expenditures is vested with AWBA. In addition, pursuant to an interstate water banking agreement with Nevada, funds are used for the delivery and storage of water for Nevada. The Non-Appropriated Funds Expended totals below include \$11.2 million and \$28 million for this purpose in FY 2006 and FY 2007, respectively. Monies received pursuant to the interstate agreement may be appropriated for use by Arizona if all contractual requirements are fulfilled for Nevada. For additional information about the Nevada Water Banking Agreement, please refer to the Water Banking discussion above.

Appropriated Funds Expended	0	0
Non-Appropriated Funds Expended	16,947,300	58,919,600
Year-End Fund Balance	81,115,900	30,596,300

Arizona Water Protection Fund (WCA1302/A.R.S. § 45-2111) Non-Appropriated

Source of Revenue: General Fund appropriations, as well as from purchases or leases of CAP water. Since FY 2000, session law changes have suspended the statutory General Fund appropriation.

Purpose of Fund: To provide grants for projects that protect water quality and quantity, as well as to maintain, enhance, and restore rivers, streams, and associated riparian habitats. The Water Protection Fund Commission reviews grant applications and determines annual recipients. The department provides administrative support for this fund, but control of expenditures is vested with the commission. The Year-End Fund Balances represent non-obligated cash and do not reflect monies already granted but not yet paid.

Funds Expended	1,850,900	555,200
Year-End Fund Balance	1,121,600	756,200

Arizona Water Quality Fund (WCA2304/A.R.S. § 45-618) Non-Appropriated

Source of Revenue: From annual Water Quality Assurance Revolving Fund (WQARF) transfers negotiated with the Arizona Department of Environmental Quality (ADEQ), as well as from legislative appropriations, grants, and contributions from other public agencies.

Purpose of Fund: To inspect wells for groundwater contamination and to take appropriate remedial action on contaminated wells. Inspections are done in conjunction with the ADEQ WQARF program.

Funds Expended	508,000	730,700
Year-End Fund Balance	251,500	128,800

Well Administration and Enforcement Fund (WCA2491/A.R.S. § 45-606) Non-Appropriated

Source of Revenue: Well-drilling filing and permit fees.

Purpose of Fund: To monitor, investigate, and enforce regulations concerning the construction, replacement, deepening, and abandonment of wells, as well as the capping of open wells.

Funds Expended	614,600	911,300
Year-End Fund Balance	825,600	780,300