



IDAHO WATER RESOURCE BOARD

NOTICE AND AGENDA

WATER SUPPLY BANK AND RENTAL POOLS COMMITTEE MEETING NO. 1-12

C.L. "Butch" Otter
Governor

Idaho Water Center, 6th Floor
Conference Rooms 602C & D
322 E. Front St., Boise, Idaho 83702

January 10, 2012, at 3:00 pm

Terry T. Uhling
Chairman
Boise
District 2

Roger W. Chase
Vice-Chairman
Pocatello
District 4

Bob Graham
Secretary
Bonners Ferry
District 1

**Charles "Chuck"
Cuddy**
Orofino
At Large

Leonard Beck
Burley
District 3

Vince Alberdi
Kimberly
At Large

Jeff Raybould
St. Anthony
At Large

Peter Van Der Meulen
Hailey
At Large

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1. Background/Refresher on Water Supply Bank
 2. Clarification of Lease Renewal Period
 3. Financial Items
 - a. Status Update
 - i. Cost of Operations v. Revenue
 - b. Rental Rate Discussion
 - i. Current Rental Rate
 - ii. Minimum Rental Rate Per Transaction
 4. Next Meeting

Committee Members:

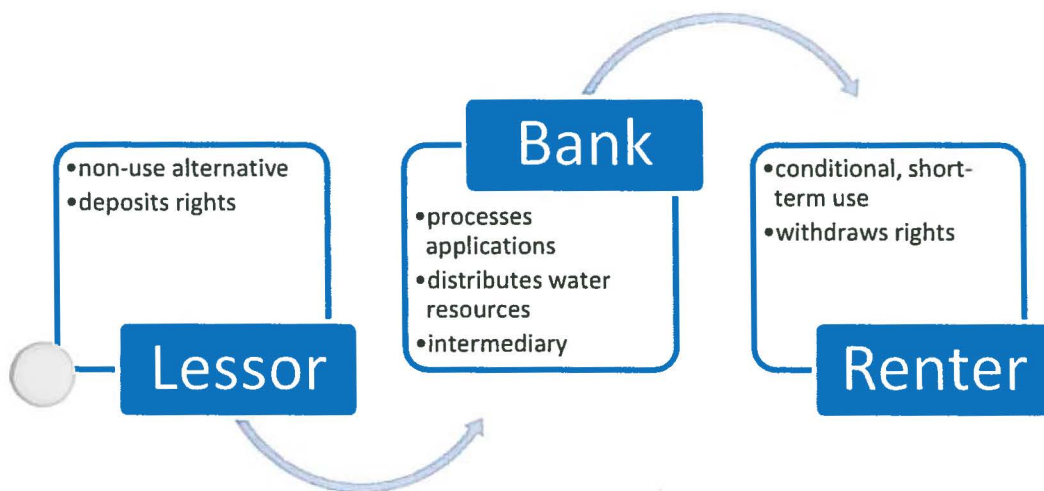
Vince Alberdi, Chairman, Roger Chase, Jeff Raybould, Chuck Cuddy,

AMERICANS WITH DISABILITIES

The meeting will be held in facilities that meet the accessibility requirements of the Americans with Disabilities Act. If you require special accommodations to attend, participate in, or understand the meeting, please make advance arrangements by contacting Diana Ball, Administrative Assistant, by email diana.ball@idwr.idaho.gov or by phone at (208) 287-4800.

ABOUT THE WATER SUPPLY BANK

IDWR has managed the Bank for the IWRB since 1979, but banking has been important to the distribution of water rights in Idaho since the 1930s. The purposes of the Bank are to encourage the highest beneficial use of water, provide a source of adequate water supplies to benefit new and supplemental water uses, and provide a source of funding for improving water user facilities and efficiencies (Idaho Code § 42-1761). Anecdotal evidence suggests Bank users have different goals in mind. Water Supply Banks are most common to the Northwest. Idaho, along with Arizona and California, is one of three Western states identified as having high-activity market mechanism programs (Clifford, 2004. *Water Banking in the Western States*. Washington Department of Ecology. Uploaded 3/14/2011).



The Bank serves as a market clearer making unused water rights available to others through a lease and rental process. The Bank is a means to connect buyers and sellers. It establishes a regulated water rights market that facilitates the exchange of water rights that would have otherwise been unused and/or forfeited.

Water right holders may lease rights into the bank for a number of reasons. Leases may protect rights from forfeiture – the most common reason for leasing. Leases have the potential to become rented, thus resulting in rental payments to the lessor and Bank. While the right is leased to the Bank, it may not be used by the lessor regardless of rental activity.

IDWR changed its lease terms in August 2010. Before August 2010, IDWR would approve so-called indefinite leases, or leases where the right was in the Bank for an unspecified period. Since that time, terms for new leases have been capped at five years with an option to extend them for additional up-to-five-year periods. We are currently maintaining the status of previously-granted indefinite leases pending further discussion and decision by the IWRB. Most leases may be renewed/extended at the lessor's signed request.

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Bank rental demand is generally greater in areas of limited supply, such as in the Eastern Snake Plain Aquifer (ESPA), particularly in the Bingham County area. In the Treasure Valley area (Basin 63), there is little demand for rentals but considerable lease activity. In northern Idaho, where surface water supplies and precipitation are more plentiful, Bank activity is minimal.




PROJECTS

Bank staff initiated numerous process improvement projects in 2010 to improve efficiency and reduce backlogs.

Rental tracking, GIS and modeling

Historically, the Bank managed most of its data in an Excel spreadsheet, but in 2008 converted to an Access database. Although an improvement over the Excel format, the Access database is still not connected to IDWR's enterprise database and, therefore, is not easily accessible to most IDWR staff and the public. IDWR staff are designing a GIS-based data management system to house, share, and display Bank rental data. In addition to greater connectivity to other Department data and increased data sharing, the GIS platform will enable IDWR to better model leases and rentals in the Eastern Snake Plain Aquifer (ESPA). ESPA modeling of rental applications currently takes a tremendous amount of time. Using GIS software, and with some assistance from IDWR's Hydrology staff, ESPA modeling for rentals could be significantly reduced.

Bank task calendar



Bank personnel are designing a calendar to direct Bank focus. For example, one goal is to process payments to lessors at the end of the irrigation season as opposed to during December. This will alleviate pressure on Bank staff during end-of-the-year processing and allow additional time to complete payments than in past years. IDWR may also begin processing Bank rentals in the fall, allowing ample time to process rentals scheduled to begin January 1. Having a Bank calendar will provide the public a predictable structure for the Bank. When the Bank calendar is completed and approved, the calendar will be implemented to standardize Bank operations/processing.

Fiscal guidelines

IDWR staff are writing a fiscal reporting guideline for the Bank. This will aid Bank and IDWR fiscal staff in gathering tax forms and sending prompt lessor payments. This will also align Bank financial matters with IDWR Fiscal guidelines. Additionally, a flowchart will provide an easy visual to clarify this sometimes complicated process.

Backlog reduction

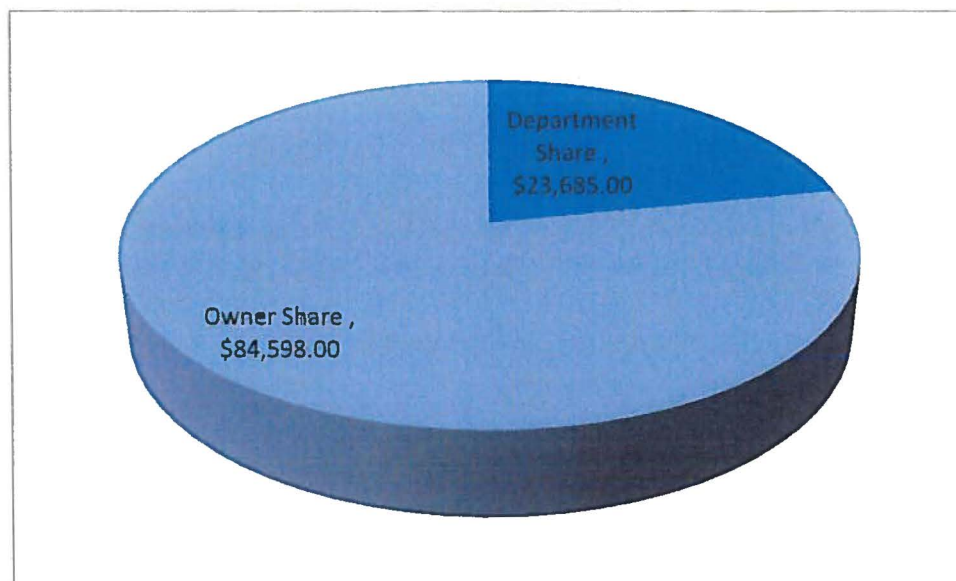
As stated previously, Interim Director Spackman temporarily assigned additional staff to work on Bank backlogs in 2010. The next section discusses 2010 backlog reduction.

ADMINISTRATIVE

Financial

The Bank generated \$108,283.00 in rental revenue during calendar year 2010. Of that, IDWR paid \$84,598.00 to lessors and retained \$23,685.00 to cover a portion of the administrative costs for the year. Of a total of 55 rental agreements, 23 were renter-lessor agreements, meaning the renter rented their own leased right and paid only the 10% administrative charge. Lessor-renter agreements are commonly used by rightholders to gain approval to use the right differently than described. The chart below illustrates distribution of lessor payments.

Rental Revenue 2010





Financial cont'd.

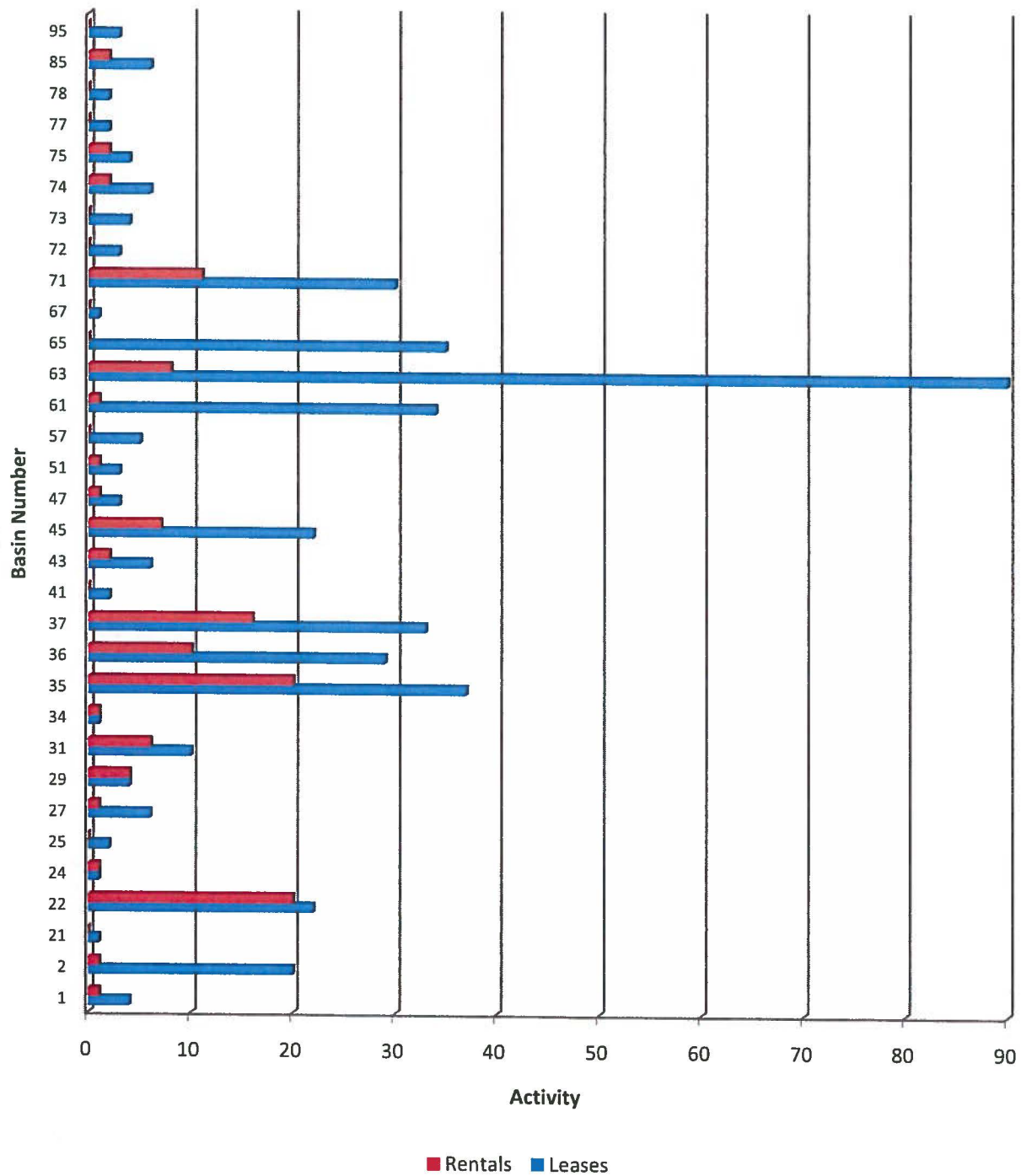
As noted above, the Department retained \$23,685 in rental administrative fees for the 2010 rental season. The staffing cost for IDWR during 2010 was \$59,173. This left an operating deficit of \$35,488. Data for prior years cannot be accurately determined, but IDWR's experience has been that similar operating deficits have occurred in recent years.

IDWR estimates increasing Bank staffing levels would allow for growth in rental revenue and prevent backlog growth. IDWR believes the optimal Bank staffing level is two full-time employees at a total estimated cost of \$105,000. To help cover administrative costs, the IWRB recommended a fee rule change to the Idaho State Legislature for the 2011 session. In November 2010, in an estimate prepared for the IWRB, IDWR projected annual lease revenues of \$37,329 with the proposed fee. This projected amount would augment the annual rental revenues (\$23,685 in 2010) to fund approximately one full-time employee. This projection is highly dependent on the number of lease applications submitted to the Bank in a given year. This rule change was approved but is being implemented in 2011, so details are not included in this 2010 annual report.

Operations

Generally speaking, for all lease and rental activity, about 1 in every 4 water rights leased to the Bank is rented from the Bank. The chart on the following page shows lease and rental activity (in number of water rights leased or rented) per basin. Basin 63 (Boise River Basin) had the most lease activity in 2010, but only 9% of the total active Basin 63 leases were rented. In comparison, Basin 22 (Teton River Basin) water users rented 91% of 22 total active leases. Basins 24, 29, and 34 water users rented 100% of active leases.

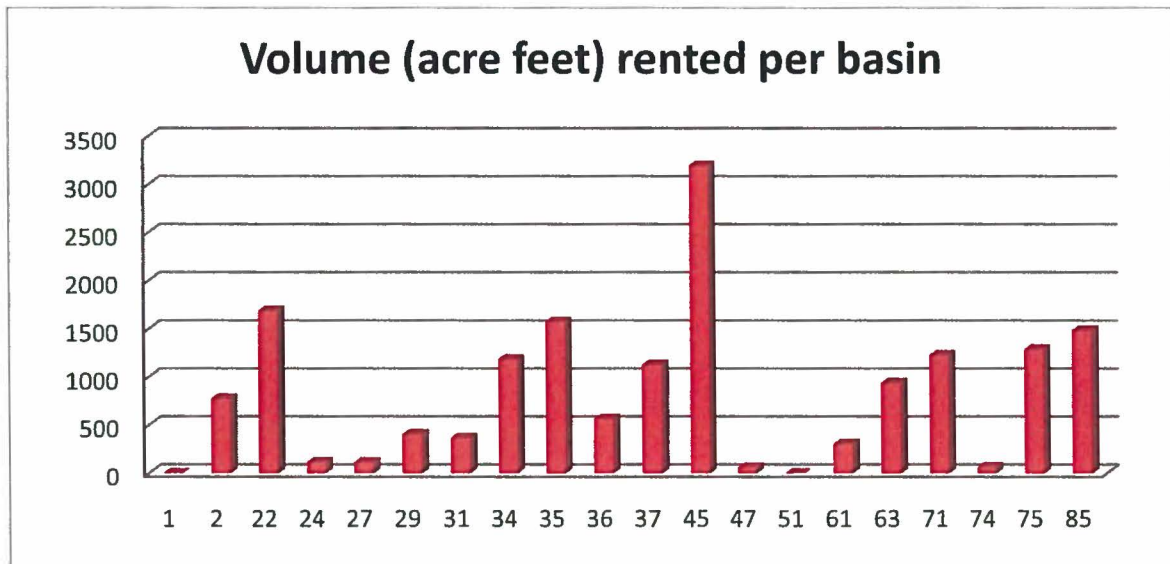
Rental & Lease Activity by Basin



NOTE: If a basin number is not displayed, there was no activity for the basin during 2010.

Operations cont'd.

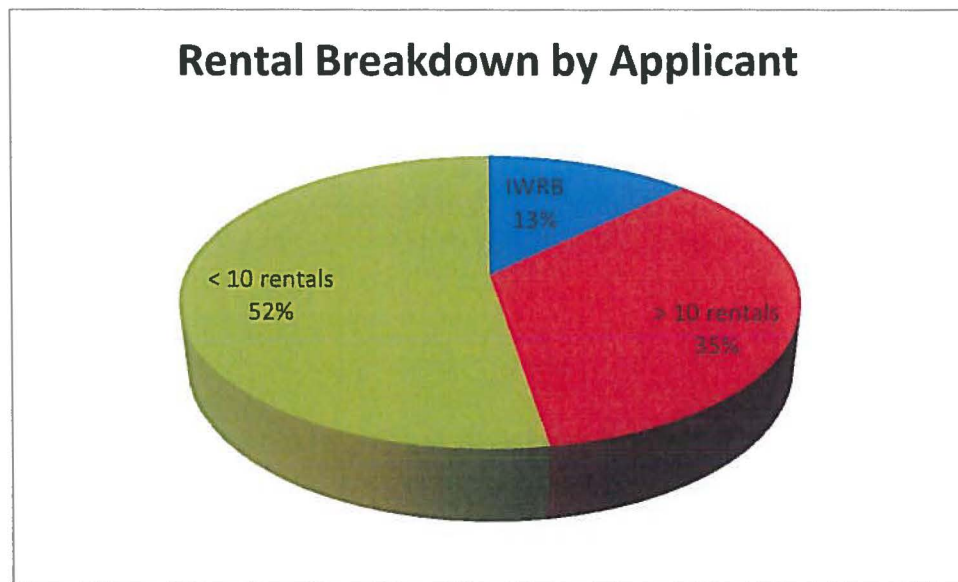
Rental volume totaled 23,191 acre-feet of water in 2010. Approximate total leased volume was 123,658 acre-feet. It is not possible to determine actual leased volume because many water rights leased to the Bank do not have volume limits. If we accept the total leased volume as 123,658 acre-feet, then 18.75% of the leased volume was rented. The figure below indicates total volume rented per administrative basin. *NOTE: If a basin number is not displayed, there were no rentals for 2010.



There were 58 active rental agreements for 118 water rights in 2010:

- Irrigation: 37
- Commercial /Industrial: 3
- Municipal: 5
- Instream flow: 5
- Other: 8

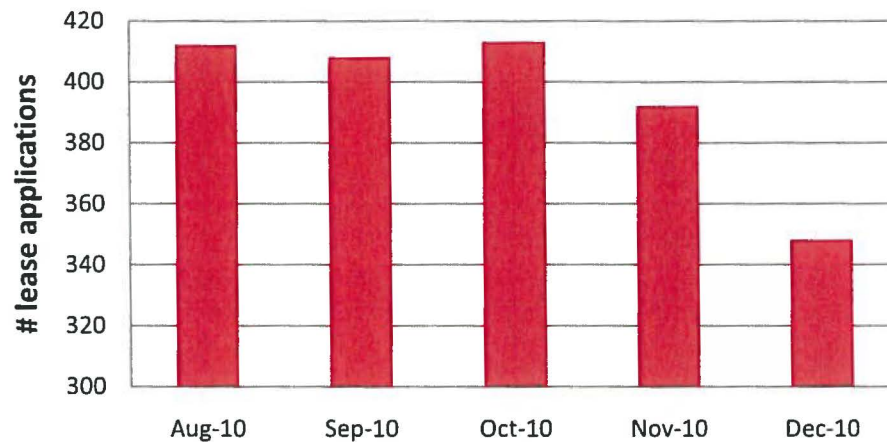
The following chart shows rental distribution for the 118 rented water rights. The IWRB accounts for 13% of rental activity. Several renters rent more than ten water rights. Between the IWRB and large renters, fewer than five renters account for nearly half the total 2010 rental activity. About 60 applicants account for the other 52% of rentals.



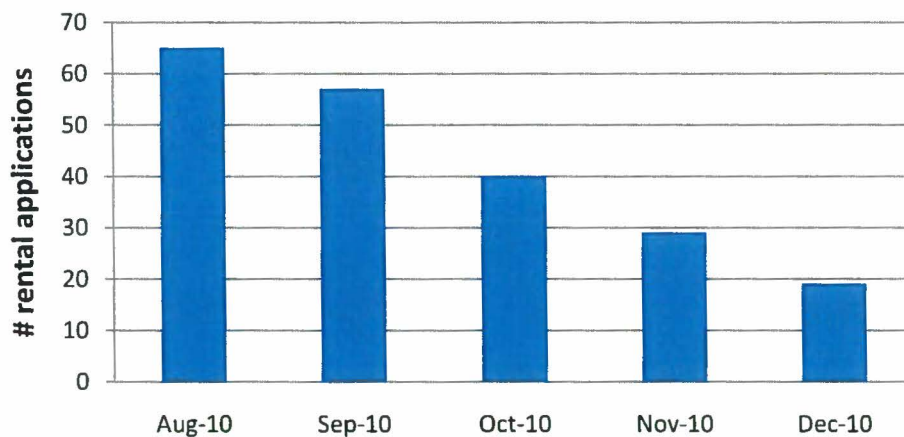
The Backlogs

As stated above, Bank activity has grown considerably over the past few years. Rental activity increased more than 2,500% and lease activity increased more than 1,600% between 1998 and 2010. This popularity resulted in significant backlogs in Bank processing for both leases and rentals. In his 2008 annual report, dated February 2009, former Water Supply Bank Coordinator Aaron Marshall indicated a processing backlog of 291 lease applications and 85 rental applications. In a subsequent memo to the Water Supply Bank Subcommittee on March 9, 2010, Aaron Marshall reported a processing backlog of 390 lease applications and 75 rental applications. In 2010, IDWR Interim Director Gary Spackman responded to the backlogs by assigning additional IDWR staff to Bank processing, despite limited revenue to fund bank activities. In August 2010, the lease backlog stood at 412 applications and the rental backlog was at 65. The following two figures illustrate the decrease in the backlog since August 2010.

Water Supply Bank Lease Backlog



Water Supply Bank Rental Backlog



Processing in 2010 focused on reducing the rental backlog, resulting in a 71% decrease. While the lease backlog was not a primary focus, the Bank still realized a 16% backlog reduction.

LOOKING AHEAD

The 2011 year will continue to bring change. The rental backlog has been reduced considerably by the temporary staffing surge and by process improvements begun in 2010. In 2011 IDWR will focus on decreasing the lease backlog.

- 9 Increased revenues should help fund a larger portion of staffing costs to administer Bank activities. Additionally, 2011 should bring completion of several other process improvement projects, especially reduced ESPA modeling time and better data management for rentals.

Memorandum



To: Idaho Water Resource Board
From: Monica Van Bussum
Date: January 4, 2011
Re: Lease Renewal Periods Limited to 5 Years

Pursuant to Water Supply Bank Rule 25.08.c, the Idaho Water Resource Board (IWRB) has broad discretion to designate the period of time a water right is accepted into the Water Supply Bank. In the past, IDWR, acting for the IWRB, accepted water rights into the Bank indefinitely. As of August 17, 2010, IDWR began limiting Bank leases to a maximum period of five years. Also as of August 17, 2010, IDWR began limiting renewals of lease agreements to a maximum period of five years.

Limiting the leases and lease renewal periods to five years will have two desirable effects. First, the limit will give multiple lessors the right to benefit from the "first in, first out" directive in Water Supply Bank Rule 30.07. By rotating the order of acceptance into the Bank, IDWR will give more lessors a chance to benefit financially from participation in the Bank. The greater chance of financial gain should encourage more participation.

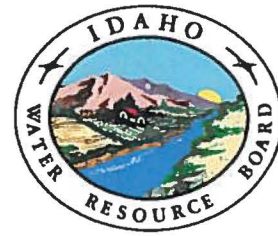
Second, in 2011, a new lease fee was passed as Water Supply Bank Rule 37.025, which says a lease application must be accompanied by:

A lease application filing fee of two hundred fifty dollars (\$250) per water right up to a maximum total of five hundred dollars (\$500.00) for overlapping water rights...

Since the lease renewal requires the Department review the same provisions under the Water Supply Bank Rules, the Department has been charging the fee upon renewal of the lease.

If the Water Supply Bank Committee supports this position, it will be read into the minutes for the next IWRB meeting.

Memorandum



To: Idaho Water Resource Board
From: Monica Van Bussum
Date: January 4, 2011
Re: Rental Rate

Action Item

Current Rental Rate

The Water Supply Bank current rental rate is \$14 per acre foot per year. This was set in 2006 by resolution from the Idaho Water Resource Board (IWRB) to be consistent with the Nez Perce agreement, which says,

A uniform rate will apply to all stored water released for flow augmentation:

- i. \$14 per acre-foot through 2012,
- ii. \$17 per acre-foot from 2013-2017,
- iii. \$20 per acre-foot from 2018-2022,
- iv. \$23 per acre-foot from 2023-2030.

If the IWRB intends to remain consistent with the Nez Perce agreement's increasing rate schedule, would the Water Supply Bank Committee like to consider a recommendation to the IWRB for resolution?

Minimum Rental Rate Per Transaction

This portion of the memo addresses the administrative fee retained by the IWRB and IDWR from rental revenues. It does not address total revenue from all Bank transactions.

The Bank has operated at a deficit for a number of years. 2010's deficit was in excess of \$35,000. In an effort to reduce that deficit, the Board reviewed opportunities for additional revenue. In 2011, the Board recommended a lease application fee, which was passed by the Idaho State Legislature and took effect in April 2011. The influx of new fees, as well as the increase in volume rented from the Bank, greatly reduced the 2011 operating deficit. However, the Bank still does not financially sustain itself.

The lowest administrative fee retained in 2011 was \$0.70, as it was in 2010. A \$0.70 rental fee corresponds to rental of 0.5 acre-feet (AF). Of the 81 rental agreements active in 2011, 40% had an administrative fee less than \$100, which corresponds to rental of less than 80 AF.

Should the IWRB Water Supply Bank Committee continue to explore opportunities for additional revenue by researching instituting a minimum rental rate per transaction?