PLATTE RIVER RECOVERY IMPLEMENTATION PROGRAM
Finance Committee Conference Call Minutes
November 9, 2011

Meeting Attendees

Finance Committee (FC)

State of Wyoming
Mike Purcell – Member (Chair)

State of Colorado
Suzanne Sellers – Member

State of Nebraska
Jennifer Schellpeper – Member

Bureau of Reclamation (BOR)
John Lawson – Member

Environmental Entities
John Heaston – Member

Colorado Water Users
Alan Berryman – Member
Kevin Urie – Member

Downstream Water Users
Don Kraus – Member

Executive Director's Office (EDO) Staff
Jerry Kenny, Executive Director (ED)
Beorn Courtney
Jason Farnsworth
Bruce Sackett
Chad Smith

Participants
Brian Barels – NPPD
Larry Schulz – EDO Consultant

Welcome and Administrative

Finance Committee Chair Purcell called the meeting to order at 10:05 a.m. Central time. No agenda modifications offered. Purcell asked about the adjustments recommended by the FC for the whooping crane monitoring agreement. Smith said the changes were made and agreed to by the contractor. Urie moved to approve the August 25, 2011 FC minutes; Kraus seconded. **Minutes approved.**

Draft FY 2012 PRRIP Budget & Work Plan

Kenny discussed the latest draft of the FY 2012 Program budget and work plan, as well as additional items provided to the FC for review and discussion.

Smith began a discussion of the AMP-related budget estimates. Lawson asked what the budget in 2013 would be. Smith said zero, except for UO from 2012. Purcell said at the end of this the FC will be asked to recommend this budget for approval, so now is the time to ask questions. Urie asked if there would be carryover from FY 11 flow consolidation funds into FY 12 for CWR activities. Lawson said there is a much larger issue looming regarding the overall size of the budget estimated for FY 2012 and FY 2013. The current estimates can't be met, based on the current federal budget situation. Purcell and Sellers said we should talk about that now. Reclamation has $16.5M available and obligated now. The FY 2012 budget was $10.7 million, but that is not finalized because the government is operating on a Continuing

Resolution. That adds to about $27.279 million total. Lawson said he does not know how much will be needed to cover expenditures between now and the end of the year. Kenny said he anticipates probably around $5M more in expenditures. Lawson said that means there will be about $23M available in federal funds for FY12, assuming the FY12 budget is ultimately approved by Congress. Reclamation would then apply about $21.6M to the Program's FY12 budget, leaving about $1.4M available for FY13. Lawson said we should anticipate that the Program will get less in federal funding that the FY12 budget. If we get the same in FY13 and we get in FY12, the Program will only have about $12.1M available to it in federal funds for FY13. The current Program FY13 budget estimate is about $27M; the federal share of that would be about $23.8M, which is a big difference from the $12.1M which is probably going to be realistically available. Kenny said the big numbers in FY13 and FY14 are associated with the J-2 reservoir project.

Kraus said the logical thing is to talk about requesting an increase in the federal appropriation. Kraus asked what the history of federal appropriations has been. Lawson said the highest was about $12M but it has been ever decreasing each year. He assumes that future Reclamation requests will be less than the $10.7M request issued in FY12. Sellers asked if there is money in a different pot or location for the J-2 reservoir. Kenny said the budget spreadsheets predicts the kind of cash flow we need for the project but does not anticipate where the funding will come from. That is $9M in FY12, $15M the next couple of years after that, and then diminishing needs in out years. Kenny said it appears that construction of J-2 would have to occur over a longer time period, or that the Program would have to investigate alternative financing options. Purcell asked if the amount for J-2 is just the Program's share, or if it is a project total. Kenny said just the Program's share – capital costs are in the $50M range and the Program share is on the order of $35-40M, with operations and maintenance in the out years. Purcell said construction can be phased, but the other tasks we are funding related to experiments are hard to stop without losing previous investments.

Lawson said we have to start matching cash flow availability with budget needs to avoid a big surprise down the road. Urie suggested we need to look at prioritizing efforts and dollars knowing we may be short going into FY13. Purcell said land costs could be deferred, maybe re-think paying for Pathfinder up front, etc. We have the tools in 2013 to adapt to keep critical work going. Sellers asked Lawson if we were to spend money at a different percentage (e.g. have the federal government spend at a lower percentage) will that cause a problem in future years when the federal funding needed to catch up. Purcell said that is a possibility, but at the end of the day the total federal percentage needs to remain the same. Lawson said we are getting to the point of doing analysis of what we think is cash flow in the future and make adjustments accordingly. Purcell said what we should do is the FC should discuss what an appropriate cut to future budgets would be and have Kenny go back and make appropriate recommendations. Kenny said one of the issues could be that if annual federal appropriations continue to go down, the federal share of the agreement at the end of the First Increment won't be upheld. Lawson said it is hard to predict but it looks like the way things are going, further belt tightening will probably be required. It is hard to know what will happen beyond 2014 given uncertainty about the national economy, etc. Barels said we must be close to the land goals, so isn't there flexibility in that one line item? Sackett said the estimates in the budget are looking at acquisition of about another 1,000 acres, but also 300-400 acres will be sold. We are not yet at the land goal, and that goal has been determined to be a floor, not a ceiling. Kenny said for 2013, given that we are close to the goal, the new money ask for land acquisition is flexible. The number for 2012, the number is equivalent to about 1,000 acres and then by the end of next year we should have met the floor. Lawson said all he was suggesting is that we have never laid out a proposed plan to be flexible if dollars are tight.

Sellers asked if this has come up before because Ted Kowalski has voiced concerns about federal funding and wondered if the First Increment could be extended based on budget problems. Lawson said Kowalski has mentioned that in passing and now is the time to look at what happens if you don't get the big numbers you have been anticipating. Urie said the Program seems to only have been spending about half of what has been budgeted each year (except for 2009 due to land acquisitions). That might mean we will have less of a problem than we are talking about now. Kenny said for the difference between what we are going to spend and what we are going to spend in 2011, the big item is not spending a large chunk on J-2 reservoir land acquisition. As we look down the road, there are some items where we have had bigger numbers that have been scrubbed down. But, those totals for next years and out years in certain sections of the budget are minor compared to large items like land acquisition and the J-2 reservoir. Purcell agreed and said we need to focus on the "7-digit" budget items. We need to consummate any land deal for the reservoir, but things like final design, plans and specs, etc. can be talked about in terms of timing flexibility. Courtney asked about what Kenny means in terms of J-2 flexibility. Kenny said creative financing and delaying the project are both options that have to be considered. Purcell said he is more comfortable with paying faster for J-2. Sellers said Colorado would rather have insurance to continue to get streamlined consultations until the J-2 water project is complete. Purcell said paying faster means the states would get commensurate payment back if necessary in the future. Sellers said the concern is if we buy land at a high price and the project can't go forward, then we'll have a higher percentage of overvalued land that we can recoup the costs from. Schellpeper said what Purcell is saying is he would want to pay faster for an asset (land or water) as opposed to something like the AMP management actions. Kenny said associating that to one or two lines items is much easier from an administrative standpoint for the ED Office and the NCF. Sellers said Colorado is not saying no to that option buts wants to mitigate risk, especially if land is purchased and the J-2 project ultimately does not go forward.

Purcell said the ED Office should look at the very large line items and give the FC and GC thoughts for phasing those costs (land and water, in particular) and then reconvene. Purcell asked Kenny to go through his presentation on the ED Office. Sellers asked about Exhibit B for the ED Office contract and asked if items should be pro-rated if staff are not working full time on the Program. Kenny said all of those items (rent, phones, etc.) are already pro-rated based on percentages of staff time working on the Program. **Sellers said to cover this issue she would prefer that Kenny add a footnote to Exhibit B explaining how that pro-rating is incorporated. Kenny said he could do that; 80% is the pro-rating factor used.**

Kenny said the work plan and budget in front of the FC is what we need to get the work done. The staffing plan for the ED Office for this work is reflected in the budget estimate for line item ED-1 in the FY12 budget. Exhibit A is the scope of work for the ED Office and Exhibit B is labor and direct costs. The large item is labor (84% of the budget).

Purcell asked the FC if they wanted to recommend for approval the ED-1 line item. Urie said the number seems real and we need to consider it in the budget as accepted. Lawson said Kenny laid out what his budget needs are and he has no reason to question. He has no problem approving this portion. In the future, the GC may have to come back and hold costs to a certain level at some point and Kenny may have to figure out how to live within that cap. Lawson is not recommending that now. Kenny said we have done that from 2010-2011. Purcell said Kenny has a good set of staff and operation and he does not want to jeopardize that. Sellers said in general if we approve things line by line, if items have to be tweaked it may make the process more difficult. Purcell said we would recommend approval of the administration budget but defer approval of the rest until recommended adjustments are made in the land

and water sections. **Heaston moved to recommend for GC approval the ED-1 budget estimate for FY2012; Berryman seconded. Motion approved.**

Purcell directed Kenny to address the rest of the budget, with particular emphasis on land and water, and get a revised budget to the GC before the November 18 meeting. Purcell said working with the land and water assumptions will help. **Kenny said he will do that and also consider some cash flow diagrams.** Berryman said we should consider postponing new projects. Purcell said if there are new projects started, would we be able to continue them. He said he is reluctant to mess with AMP items because of their importance to decision-making in the future.

Barels said one thing that may need to be considered is the choke point issues. He said the Program is having a hard time testing FSM until other water is in place, and there seems to be a discussion of a new choke point at Kearney. Barels said these are real-time issues that need addressed and pertain to provisions and decisions in the white book. Kenny said choke point issues are to be addressed in budget line items WP-1a and WP-1b. Kenny said we are learning a great deal about FSM through natural flows and other activities. Purcell said Barels brings a bigger issue and that is how reaching milestones is influenced by budget items, choke points, and other realities in 2011 as opposed to 2007.

Closing Business

FC meeting adjourned at 11:52 a.m. Central time.

Summary of Action Items/Decisions from November 9, 2011 FC meeting

1) Approved August 25, 2011 FC minutes.
2) Recommended for GC approval the FY 2012 Program budget line item ED-1.
3) Kenny agreed to add a footnote to Exhibit B of the FY 2012 ED contract noting the pro-rating factor for direct costs.
4) Kenny agreed to work on FY 2012 and beyond budget revisions, particularly with large items in the land and water budgets, for presentation to the GC during the November 18 GC Special Session conference call.