

MINUTES OF THE HOUSE ENVIRONMENT COMMITTEE

The meeting was called to order by Chairman Joann Freeborn at 3:30 P.M. on March 3, 2005 in Room 231-N of the Capitol.

All members were present.

Committee staff present:

Raney Gilliland, Legislative Research Department
Lisa Montgomery, Revisor of Statutes Office
Dana Wurdeman, Committee Secretary

Conferees appearing before the committee:

Others attending:

See attached list.

Chairperson Freeborn called the meeting to order.

The agenda for next week is on call of the chair, no bills have been assigned to our Committee as of yet. Reminder for all visitors to sign the guest log.

Chairperson Freeborn welcomed Earl Lewis, Kansas Water Office to make a presentation on Kansas Water Marketing Program and Associated Unfunded Liability. In 1963, the Legislature and Governor enacted the State Water Resources Planning Act. That act gave the Kansas Water Resources Board the ability to contract with the federal government for storage in reservoirs. To date the state of Kansas has purchased water supply storage in 13 federal reservoirs. In five of the reservoirs, a contract provision allows the state to defer both capital and operation costs on storage no immediately needed until such time as the state calls the storage into service. Those five reservoirs are Milford, Perry, Clinton, Hillsdale and Big Hill. Information detailing reservoir storage, costs and contract term is attached as well as a historical time line for the Water Marketing Program. (See attachment 1)

Committee questions and discussion followed.

Chairperson Freeborn adjourned the meeting at 4:30PM. The next scheduled meeting is March 8.

HOUSE ENVIRONMENT COMMITTEE GUEST LIST

DATE: 03/03

NAME	REPRESENTING
Dave Brown	KWA & KWE
Lona Branscum	KWO
Earl Lewis	KWO
Tracy Steeler	KWO
Kent Weatherby	KS River Water Assur. Dist
Steve Adams	KS Wildlife Parks
Lester Kaufman	KS Coop Council
Tom Gaches	KSPE
Chris Wilson	KS Dairy Association



K A N S A S

TRACY STREETER, DIRECTOR

KANSAS WATER OFFICE

KATHLEEN SEBELIUS, GOVERNOR

**Testimony Regarding
Kansas Water Marketing Program and Associated Unfunded Liability
to
The House Environment Committee**

**by Earl Lewis
Kansas Water Office
March 3, 2005**

Good afternoon, Madam Chair and members of the Committee. I am Earl Lewis, Manager of Hydrology and Evaluation for the Kansas Water Office. I am pleased to be here today to discuss the Kansas Water Marketing Program and its' associated unfunded liability.

In 1963, the Legislature and Governor enacted the State Water Resources Planning Act. That act gave the Kansas Water Resources Board (the Kansas Water Office predecessor agency) the ability to contract with the federal government for storage in reservoirs. (K.S.A. 82a-910) To date the state of Kansas has purchased water supply storage in 13 federal reservoirs. In five of the reservoirs, a contract provision allows the state to defer both capital and operation costs on storage not immediately needed until such time as the state calls the storage into service. Those five reservoirs are Milford, Perry, Clinton, Hillsdale and Big Hill.

The state exercised this option on all five reservoirs as a cost containment measure for the state and water marketing customers. The contract provision also set a timeframe under which the costs must be paid. That timeframe is 50 years from the date the first increment is called into service. Interest on the portion not called into service continues to accrue. With each year, our debt grows and the number of years in which we can pay shrinks.

Two years ago, we contracted with an outside consultant for a review of our program. The resulting report identified a number of changes that could, and should, be made to better serve our customers and provide financial solvency. A key finding of the outside review was that the state of Kansas had no plan to deal with the accruing debt of the storage not in service. The Kansas Water Authority reviewed the findings of the report and authorized a policy review and public input into the needed changes.

During 2004 the Kansas Water Office and Kansas Water Authority reviewed and gained public input on options to deal with the unfunded liability. Three main options evolved. Those are best characterized as: 1) balloon payment at contract term, 2) call storage into service now, or 3) establish interest bearing escrow account. An economist from the University of Kansas Policy Research Institute assisted in evaluating the alternatives both on actual cost and the relative costs of the options when considering the changing value of money over time. Under this evaluation, setting money aside in an interest bearing escrow account was the most fiscally responsible option.

House Environment Committee
March 3, 2005
Attachment 1

Based on these findings, in November of 2004, the Kansas Water Authority adopted a policy section of the Kansas Water Plan that proposes establishment of an interest bearing escrow account to address the program's financial feasibility. Subsequently, the establishment of an escrow account is included in the Governor's Budget Report.













Information detailing reservoir storage, costs and contract term is attached as well as a historical timeline for the Water Marketing Program.

I will be happy to answer any questions you may have at this time.

Kansas Water Marketing and Assurance Program

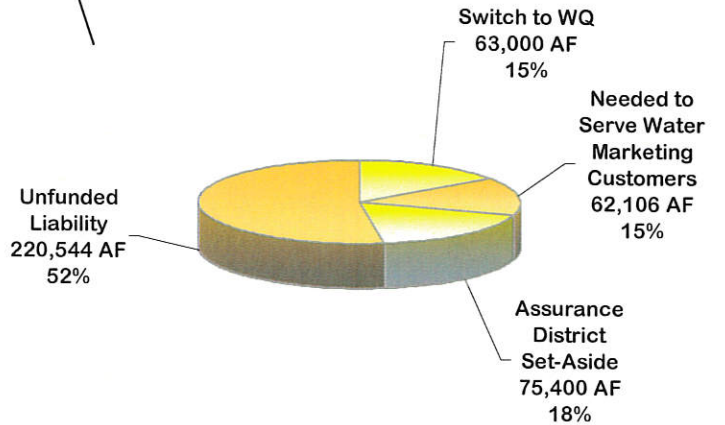
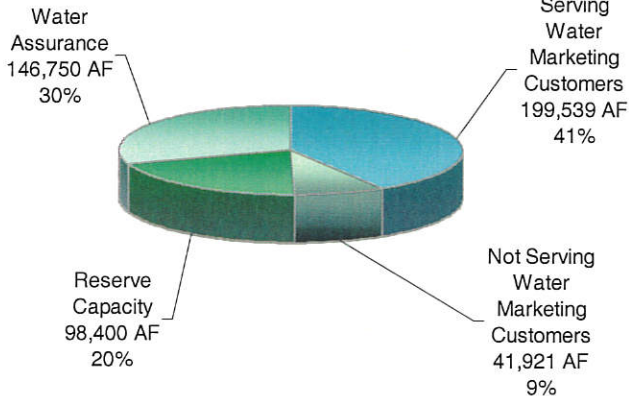
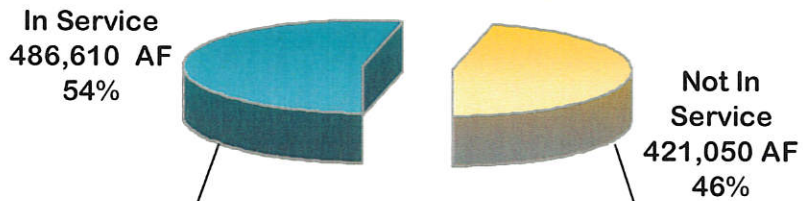
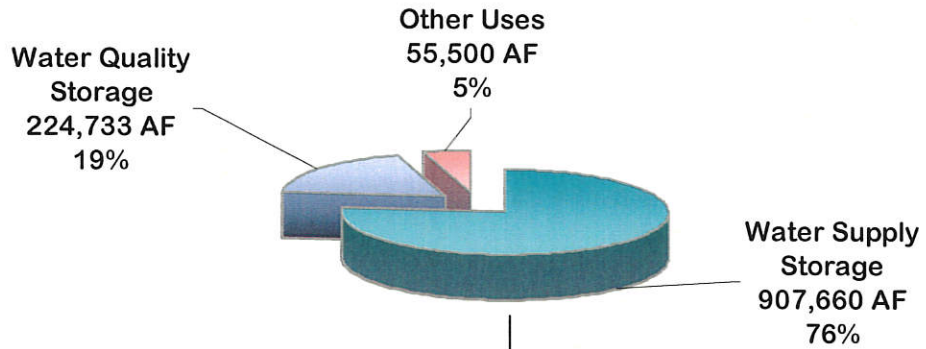
Historical Timeline

1-3

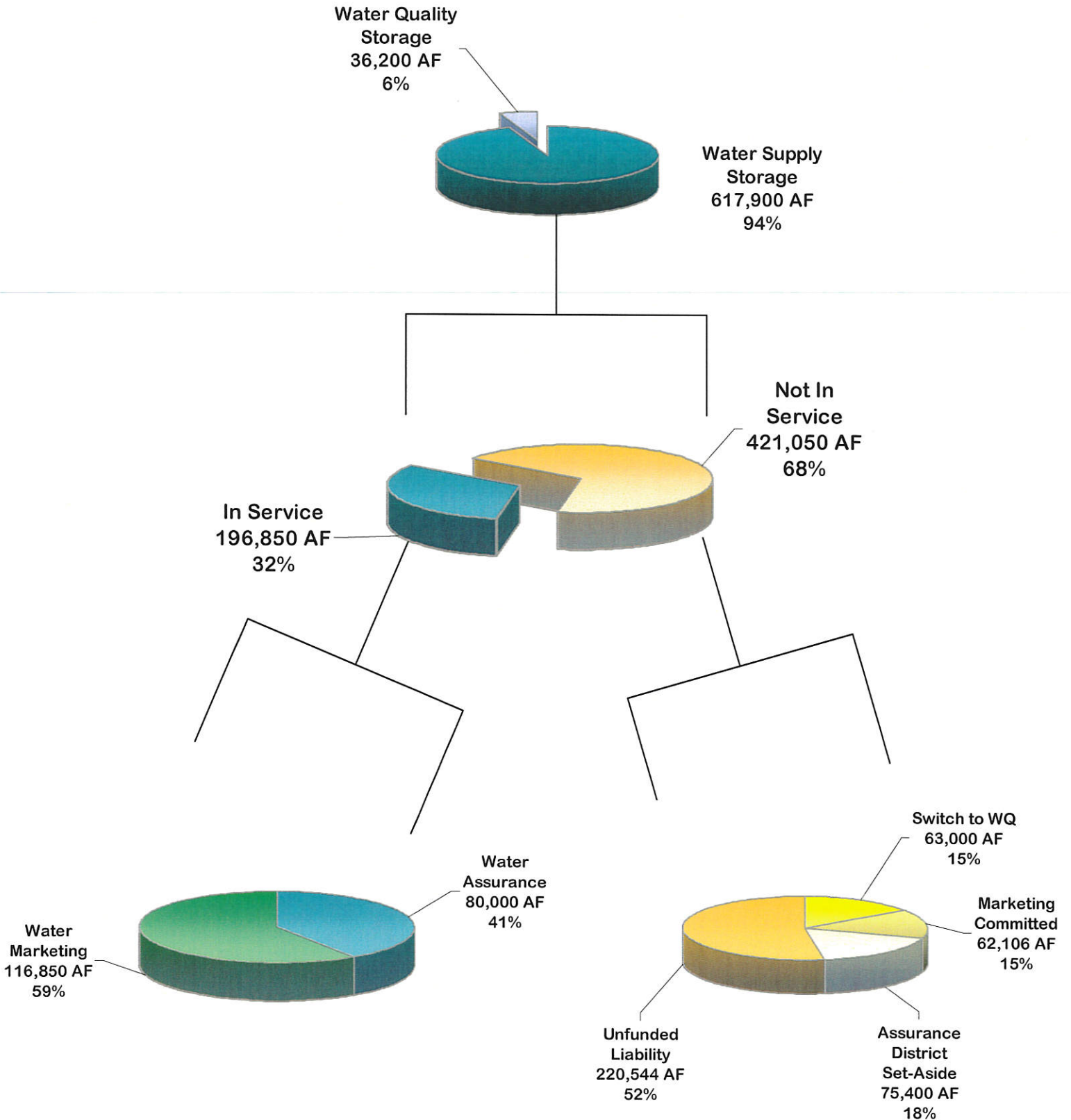
Events	1947	1957	1967	1977	1987	1997
Federal Water Supply Act		 1958				
Construction of Kansas Reservoirs	 1948 -			 1981		
State Water Resource Planning Act		 1963				
First Contract Signed			 1973			
State Water Plan Storage Act			 1974			
Revisions to State Water Plan Storage Act				 1983		
Memorandum of Understanding (MOU) with U.S. Army Corps of Engineers				 1985		
Water Assurance District Act				 1986		
"Big Buy" Contracts Executed					 95-96	
Independent Review of the Water Marketing Program						 2002
Kansas Water Plan Policy Section on Unfunded Liability						 2004

1-3

State of Kansas Public Water Supply Storage (AF)



**Big Hill, Hillsdale, Clinton, Perry, & Milford
Public Water Supply Storage (AF)**



State of Kansas
Public Water Supply Storage
January 2005

	In Service ¹				Not In Service ²			
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
	Water Assurance (af)	Serving Water Marketing Customers (af)	Not Serving Water Marketing Customers (af)	Reserve Capacity (af)	Switch to WQ (af)	Needed to Serve Water Marketing Customers (af)	Assurance District Set-Aside (af)	Unfunded Liability (af)
Big Hill	0	9,200	0	0		2,934		13,566
Clinton	0	53,500	0	0		35,700		0
Council Grove	6,200	16,495	1,705	8,000				
Elk City	0	7,069	13,111	10,000				
Hillsdale	0	7,500	0	0		16,067		29,433
John Redmond	3,500	27,450	0	6,500				
Kanopolis	0	1,070	11,430	0				
Marion	300	17,050	12,465	12,500				
Melvern	7,700	13,555	795	27,950				
Milford	55,000	46,650	0	0	36,000	7,404	60,400	94,546
Perry	25,000	0	0	0	27,000		15,000	83,000
Pomona	7,700	0	0	24,800				
Tuttle Creek	41,350	0	0	8,650				
Total Storage	146,750	201,954	39,506	98,400	63,000	62,106	75,400	220,545
		486,610				421,051		

¹ In Service capacity is storage for which the State of Kansas has paid for or begun making payments for capital costs as well as operation and maintenance. The State of Kansas has control over the operation of this storage.

² Not In Service capacity is storage for which there is a contract between the state and the Corps of Engineers but the state has not started making either capital or operation and maintenance payments. The Corps of Engineers maintains control of the storage until the state begins making payments.

(1) Water Assurance Storage is storage that the State has in service and is dedicated to serving water assurance program customers. The water assurance districts repay the state's capital cost investment and pay the annual operation and maintenance costs.

(2) Storage needed to serve the current and anticipated customers of the Water Marketing program. The Water Marketing program is paying the capital cost investment and annual operation and maintenance costs.

(3) Storage that does not currently serve a customer. The Water Marketing program is paying the capital cost investment and annual operation and maintenance costs.

(4) Reserve capacity storage was purchased in the mid 1990s under the 1985 Memorandum of Understanding (MOU) between Kansas and the U.S. Army Corps of Engineers. It is the portion of storage that has not yet been needed for either the Water Marketing or Water Assurance programs at this time. Annual O&M is paid by the State Water Plan fund.

(5) Storage needed to serve water quality purposes. The U.S. Army Corps of Engineers will be asked to reallocate water supply storage to water quality storage.

(6) Storage needed to serve existing Water Marketing customers in the future. This storage will be periodically called in to service as needed.

(7) The Kansas River Water Assurance District anticipates needing this storage by 2020. They have set aside money to repay the state's capital cost investment when the storage is called in to service.

(8) Storage that has been contracted for at the U.S. Army Corps of Engineers "As-Built" cost. No need has currently been identified for this storage. If the storage is not purchased before the contract expires, the storage could be purchased, but at a much greater updated construction cost.

Water Supply Costs and Capacity Currently In Service

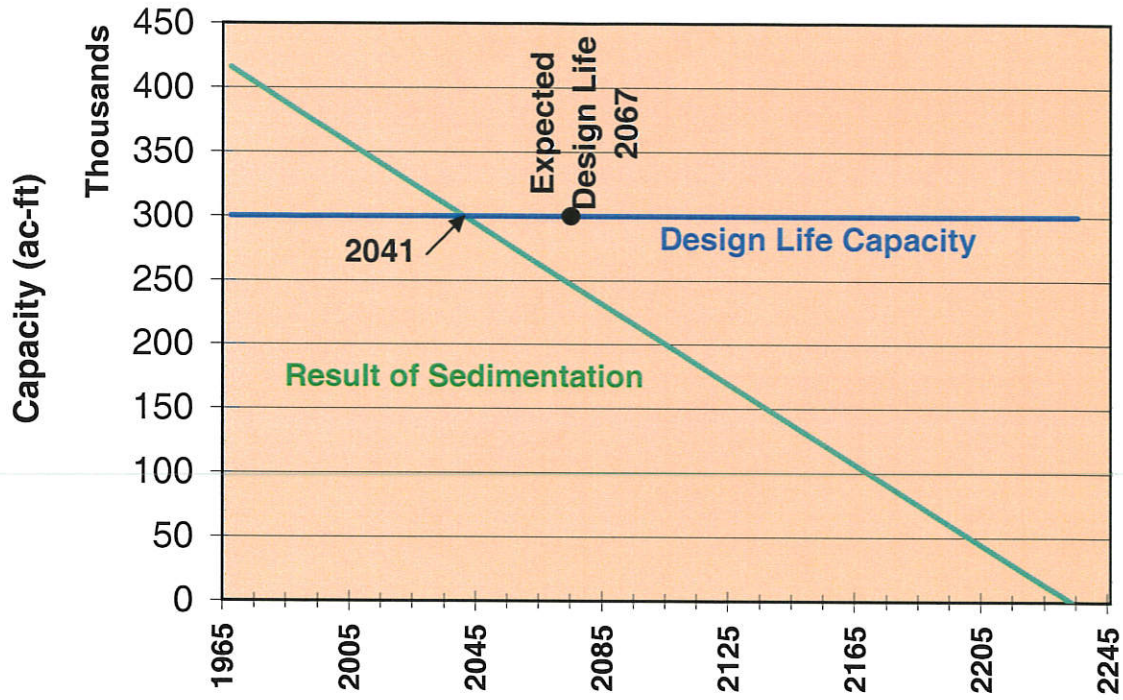
Reservoir	Contract Effective	Term Initiated	Term of Contract	End of Contract Term	P&I Costs paid through 2004	Annual P&I Payment	Sum of Remaining P&I Payments	Storage Contracted (AF)
Big Hill Lake	18-Jun-73	01-Apr-81	50	2029	\$2,392,690	\$119,390	\$2,984,750	9,200
Clinton Lake	06-Sep-77	06-Sep-79	50	2028	\$4,487,455	\$168,754	\$4,050,094	53,500
Council Grove Lake	12-Mar-76	01-Oct-75	50	2024	\$1,602,165	\$52,200	\$1,043,953	24,400
Council Grove Lake*	26-Jun-96			1996	\$1,287,468			8,000
Elk City Lake	12-Mar-76	01-Oct-75	50	2024	\$2,318,160	\$77,272	\$1,545,421	20,180
Elk City Lake*	26-Jun-96			1996	\$1,150,894			10,000
Hillsdale Lake	07-Dec-73	01-Oct-81	50	2030	\$3,558,916	\$163,597	\$4,253,511	7,500
John Redmond Lake	18-Jun-75	01-Oct-74	50	2023	\$4,946,971	\$157,580	\$2,994,002	27,450
John Redmond Lake*	26-Jun-96			1996	\$832,768			10,000
Kanopolis	17-Jun-02	17-Jun-03	30	2032	\$1,100,879	\$234,392	\$6,562,970	12,500
Marion Lake	12-Mar-76	01-Oct-77	50	2026	\$1,679,272	\$59,974	\$1,319,439	32,230
Marion Lake*	26-Jun-96			1996	\$2,188,446			12,500
Melvern Lake*	04-Nov-94			1996	\$7,137,123			50,000
Milford Lake	08-Mar-74	01-Oct-84	50	2040	\$6,131,991	\$98,555	\$3,547,972	101,650
Perry Lake	10-Dec-76	01-Oct-91	50	2040	\$3,040,529	\$22,515	\$810,557	25,000
Pomona Lake*	01-Mar-95			1996	\$1,565,619			14,324
Pomona Lake*	01-Nov-95			1996	\$2,027,518			18,176
Tuttle Creek Lake*	01-May-90			1991	\$1,904,525			27,500
Tuttle Creek Lake*	01-Aug-94			1995	\$650,211			8,650
Tuttle Creek Lake*	01-Jun-96			1996	\$1,090,378			13,850

* Contracts associated with the 1985 Memorandum of Understanding between Kansas and the Corps of Engineers.

Total \$51,093,978 \$1,154,229 \$29,112,669

Water Supply Contracts and Capacity Not In Service						
	Not In Service Category	Storage Contracted (af)	1/1/2006 Principal Balance	End of Contract Term	At Term Principal Balance	Interest Rate
Big Hill	Switch to Water Quality	0	\$0	2029	\$0	4.012%
	Needed to Serve Water Marketing Customers	2,934	\$1,377,180		\$3,403,377	
	Assurance District Set-Aside	0	\$0		\$0	
	Unfunded Liability	13,566	\$6,367,699		\$15,736,269	
Clinton	Switch to Water Quality	0	\$0	2028	\$0	3.502%
	Needed to Serve Water Marketing Customers	35,700	\$4,966,247		\$10,231,796	
	Assurance District Set-Aside	0	\$0		\$0	
	Unfunded Liability	0	\$0		\$0	
Hillsdale	Switch to Water Quality	0	\$0	2031	\$0	4.012%
	Needed to Serve Water Marketing Customers	16,067	\$12,864,016		\$34,392,422	
	Assurance District Set-Aside	0	\$0		\$0	
	Unfunded Liability	29,433	\$23,565,481		\$63,003,184	
Milford	Switch to Water Quality	36,000	\$2,701,540	2034	\$5,591,516	2.632%
	Needed to Serve Water Marketing Customers	7,404	\$555,609		\$1,149,972	
	Assurance District Set-Aside	60,400	\$4,532,503		\$9,381,154	
	Unfunded Liability	94,546	\$7,094,891		\$14,684,659	
Perry	Switch to Water Quality	27,000	\$3,112,365	2041	\$8,895,703	3.046%
	Needed to Serve Water Marketing Customers	0	\$0		\$0	
	Assurance District Set-Aside	15,000	\$1,729,091		\$4,942,057	
	Unfunded Liability	83,000	\$9,567,639		\$27,346,051	

Milford Conservation Pool



Perry Conservation Pool

