

Workgroup #4 – Funding: The workgroup will (i) review recommendations from the other Workgroups; (ii) identify funding needs for implementation of any alternative water supply source development incentives recommended by Workgroup #1 or the EVGMAC; (iii) Identify data funding needs for implementation of any alternative management structures recommended by Workgroup #2A or the EVGMAC; (iv) identify funding needs for implementation of any future permitting criteria recommended by Workgroup #3 or the EVGMAC; (v) identify funding needs for acquisition of data, continuous improvement of analysis tools recommended by the other Workgroups or the EVGMAC; (vi) identify supportable funding mechanisms; and (vii) perform other tasks as identified by the EVGMAC.

**WORKGROUP #4: FUNDING ISSUES/CONCERNS RAISED BY THE WORKGROUPS DURING DISCUSSIONS AND INCLUDED IN THE MEETING NOTES:**

- **WORKGROUP #1 – ALTERNATIVE SOURCES OF SUPPLY**
  - **MTG 2 – THURSDAY, OCTOBER 15, 2015:**
    - Should the state spend some money doing some studies? Should we recommend that the legislature provide funding to do site-specific or area-wide studies? What questions need to be addressed through the study?
  - **MTG 3 – TUESDAY, OCTOBER 27, 2015:**
    - Funding mechanisms – how do we make the economics work?
  - **MTG 6 – THURSDAY, MARCH 10, 2016:**
    - Formation of a financial pool to provide funding/incentives to encourage the regional projects.
    - Alternatives to GW usage and challenges faced within the regions specially James City county and Newport News Water Works - Financial options for funding such projects are limited.
    - Utilize private utilities for funding and managing assets.
  - **MTG 7 – FRIDAY, MAY 13, 2016:**
    - In regards to local funding, the group talked about the idea of using “tifs” (Tax Incentives Financing) around special service districts which help fund the expansion of infrastructure to get people off of groundwater. The group also talked about tax credits to maybe disincentivize construction within certain areas, to try to consolidate where the infrastructure would be developed.
    - In regard to state funding mechanism, the group talked about the idea of the use of the WQIF funding mechanism that already exists and as the need for that mechanism matures out that maybe the conversion of that to support infrastructure might be appropriate. The group also recognize that there is probably “a kettle of vultures” circling around that money waiting for it so that might not be a viable option.

- It was noted that most of the options that were identified are funded locally and that is not likely to change, even though in the future state funding at some level may be needed and appreciated but may not be viable.
- The option of building surface water reservoirs/impoundments – this is the exception because there was interest in state funding or some kind of regional/multi-jurisdictional funding approach. The group talked about creating a new political subdivision. The question is whether there needs to be something like that to collect the revenues needed for this type of project to be feasible. In terms of incentives – there needs to be stronger state support and participation in the process. There was a lot of skepticism as to whether this type of project could happen, given past experience with development of a reservoir. Impediments included the Army Corps of Engineer’s criteria and trying to find something where this would be the least damaging option/alternative – the least environmentally damaging option. Wetlands impacts and land availability were also raised as impediments that needed to be considered. Is there really a site in the “Eastern” region where a reservoir would be feasible?
- The group talked about the HRSD project, the “SWRI” – not really local funding but it is paid for by the rate payers. How a project is paid for is important. The goal is to have the people who benefit pay.
- Funding – the group talked a little about what the models used by Florida and California use – the idea of user fees that could be distributed among aquifer users was discussed. The concept of the use of a “regionalized funding group” was identified. The idea of having state support for the upfront capital costs for a project was discussed by the group – loans; state funding pot.
- On the local funding side, the group talked about the availability of credits for use of excess water capacity – should the drinking water providers get credit? User fees?
- Show me the money! What are our viable funding options? The “Funding” Committee has a tough decision to make with regard to whether it is user fees or is it spread out? That is going to require some help from the General Assembly.
- User Fees – Who would be subject to “user fees”? This will need to be discussed by the “Funding Workgroup”. How narrow is the term will need to be identified. The concept of “unpermitted users” will also need to be part of this discussion. Unpermitted users will be looked at by the “Alternative Permitting Criteria Workgroup”. The fact that this workgroup

has raised the concern will go into that workgroup's consideration and discussions of the concept.

- **WORKGROUP #2A – ALTERNATIVE MANAGEMENT STRUCTURES:**
  - **MTG 1- FRIDAY, OCTOBER 23, 2015:**
    - The availability of funding for regional solutions is always an impediment that would have to be addressed if we were to seek and implement regional solutions.
    - A mechanism is missing that would provide for the management of funding for regional solutions.
    - The current structure does not encourage regional solutions (now individual permits) – no definition of regions (there is an ability to create regions) – it doesn't impede regional solutions – there is nothing that explicitly sets up the mechanism to create a regional solution.
    - A mechanism is missing that would provide for the management of funding for regional solutions.
  - **MTG 2 – THURSDAY, NOVEMBER 5, 2015:**
    - Q/A: Funding: By having the Federal Government say that this is an important issue and we are going to put money towards it and create this construct to force the conversation – lead to the opportunity to create these other opportunities – and provided funding so that it could be done in a scientifically and technologically based manner. Do we need to have some form of formal arrangement like this to address the groundwater issues in Virginia? Does even have an Eastern Virginia Groundwater Management Advisory Committee in place provide a platform for this type of discussion?
    - No mechanism to manage funding for regional solutions or to look for economies of scale.
    - The report to the group should include: the current system doesn't encourage regional solutions; there is no mechanism to manage funding for regional solutions; need to look at economies of scale; the current structure does have the responsibility and capacity to identify resources and problems within DEQ but not within VDH; unregulated users are an issue; concerns about the terms of permits – wanting a certainty of a number (allocation) and length of permit (time); incentives for efficient use of water; funding is an issue for a management structure; fairness and equity issues; more stakeholder involvement; and the current system doesn't take into consideration economic factors.
    - Unpermitted users (every group has identified this as an issue that needs to be looked at)

- Q/A: Is there a number that we are trying to? Is the science available that says that we need to reduce groundwater consumption by "X" amount? What is the problem that we are trying to solve? There is a number but it is a "model" not really a number. You can look at the proposed reductions and add up the total permitted withdrawals after those reductions and you basically come up with that "number". Which is what the model tells us today will eliminate the majority of the critical cells by 2025. That is the status quo. If another user comes in then that "number" changes. The model is also based on the current estimate of "unpermitted use", which is in the neighborhood of 30 million gallons per day. We are in the neighborhood of a total of 70 and 90 mgd. So there is kind of a cap already. - The "existing cap" assumes that you are going to follow the original objective of protecting the aquifer. Has the Advisory Committee bought off on this?
- There are two levels of sacrifice: there are those that have a certain permitted level and have not used it and those that have made the capital investment/improvements to use that permitted amount.
- Because of the way we do groundwater withdrawal permits now (with term limits), those that get their allocation numbers first are at an advantage and those that come in later in the process are at a disadvantage – they only get what is left over.
- The report to the group should include: the current system doesn't encourage regional solutions; there is no mechanism to manage funding for regional solutions; need to look at economies of scale; the current structure does have the responsibility and capacity to identify resources and problems within DEQ but not within VDH; unregulated users are an issue; concerns about the terms of permits – wanting a certainty of a number (allocation) and length of permit (time); incentives for efficient use of water; funding is an issue for a management structure; fairness and equity issues; more stakeholder involvement; and the current system doesn't take into consideration economic factors.
- What are the biggest weaknesses with the status quo? (How do we get permittees to participate in that discussion – there seems to be some concern that the experiences of individual permittees may be unique enough that there's not necessarily broad value in sharing their experiences with the program for any particular user's group (user's sector). How do we get people comfortable speaking about their concerns about the status quo?) The fact of the matter is that if we had enough water the permitting process is pretty easy to understand and works well. We are just not in that situation now. The feedback from some of the permittees was that those

that have permits that have recently gone through the process went through it before these dramatic cuts were proposed, so their experience is not necessarily the same as those that are going through the permitting process now. Those that are going through it now are in the process and don't necessarily want to serve as an example. We can probably talk in generic terms about whether there is a concern with the permitting process in terms of a process by itself, but the real problem is more one of if you are in the time of shortage does the permitting process really allow you to come up with solutions. Maybe the conversation that needs to take place is whether there is a problem with the permitting process or is the problem what we do when we get to a time of shortage? Staff noted that they would have a hard time leading the conversation critiquing their own program – that's why we need one or more of the permittees or one of the members of the workgroup to initiate the conversation for the group. .

- **MTG 3 – MONDAY, DECEMBER 7, 2015:**
  - In Texas, concerned about permit ability of good sites, state identifies and preserves those sites, it's like a conservation easement, state buys the land, Virginia made choice for permitting program but not robust planning program, need funding to implement the resources.
- **MTG 6, MONDAY, JUNE 13, 2016:**
  - It is not so much a voluntary allocation agreement as it is a funding issue. It is not a matter of dividing up the water but one of where we (collectively) are going to get our water from over the long term and how are we going to pay for it. Who is going to be partners in this process and what are we going to do with our withdrawals in the mean time?
  - It was suggested that what we need is an alternative structure for financing – alternative funding sources.
- **WORKGROUP #2B – TRADING:**
  - **MTG 2 – THURSDAY, NOVEMBER 5, 2015:**
    - The current structure which is based on individual permits does not encourage regional solutions. It doesn't impede them but there is no mechanism to actually encourage it. Also, there is no mechanism to manage funding for a regional solution.
    - RE: Compensation: How do you compensate or make adjustments or make allowances for somebody/a user who has a permitted use of "X" amount but their historic use is obviously lower? So are you going to take away their "permitted use" amount and replace it with a much lower amount in order to meet the cap or are you going to say that your use is the "historic use" amount and in order to meet the cap you will need to reduce

it below that level. That is the way that the program was originally designed to function but it has never been implemented in that manner. The statute already accounts for that – it basically says that if you are not using 60% of your permit by “Year-5” we can take it back.

- **MTG 4 – FRIDAY, MARCH 25, 2016:**
  - FLIP CHART NOTES: Unpermitted users – loss from system – how is it addressed? A) Take off top re: ratio-equitable? B) Permit them – regulate? C) Pay a fee to contribute to a banking system. D) Already “accounted for” in the model – improve with well registration legislation – new wells only. Or D) Stay the same.
  - The group discussed the use of a severance tax or a fee for service. It would have to be a groundwater replenishment fee – tied to the cost of replenishing groundwater. The group noted that there would be water rights issues that would need to be taken into consideration.