Financial Principles

This is a summary of the key financial policy issues. It briefly explains each issue, states what has been determined to-date, and identifies future areas in which policy decisions need to be made. It does not represent a summary of the Financial Strategy that will appear in the EIR/EIS, although the issues identified here will be important to the Financial Strategy report.

1. Benefits-based allocation

The assumption of a benefits-based allocation has been the cornerstone of the CALFED approach. The fundamental philosophy is that costs will be paid by those who enjoy the benefits of the actions, as opposed to seeking payment from those who, over time, were responsible for causing the problem. Within the stakeholder community, there is general agreement with this approach for the future. There is not full consensus among stakeholders on the detailed application of this principle. Some stakeholders feel that water diverters need to pay something for past damage to the ecosystem prior to using the benefits to allocate future costs. This is difficult because there is not general agreement over what role any particular diversion, or diversions in general, may have played in degrading the ecosystem relative to the many other factors over the last century or more that man has been affecting the Delta.

There is also disagreement over whether storing water for the ecosystem is a benefit for the ecosystem, or rather a benefit for water users as a way of enabling ongoing diversions in the future. Treating ecosystem storage as ecosystem benefit would imply public funding, while treatment as mitigation for ongoing diversions would imply user funding.

2. Public/User Split

Within the benefits-based approach, benefits have been assumed to be divided between public benefits and user benefits. Generally, public benefits are those that are freely available to all members of general public, and for which it is not practical to exclude those who do not choose to pay. User benefits, conversely, are those that benefit only specific groups of individuals, and from which users can be excluded if they choose not to pay. Generally, public benefits are assumed to paid for with public funds, and user benefits paid with user funds.

3. Broad-based revenue source

As a logical consequence of the benefits-based approach, there is an assumption that a broad-based revenue source will be needed to fund Common Programs with broad-based non-public benefits. There has been no policy articulated in this area, but the discussion has been around a Delta watershed fee(s) that would provide a non-public revenue stream to supplement public funding for the Common Programs. This fee would include upper watershed users including San Francisco, East Bay MUD, Sacramento Valley and San Joaquin Valley, as well as in-Delta diverters. Substantive questions surrounding such a fee include the size of the fee and whether it should be uniform or differ by user group.

4. Ability to pay

This policy relates to whether or not specific users will be obligated to pay the full cost allocation for their benefits, or whether some obligations should be reduced based on the limited ability of certain users to pay the full cost of their benefits. Such reduced obligations would have to be subsidized either by other users or with public funds. Although no specific principle has been articulated, the working assumption has been that ability to pay issues will be considered on a case by case basis, after a full cost allocation has been made assuming no subsidies among groups. There are at least two areas where this may come up. First, landowners in the Delta may raise ability to pay issues relating to the local share of levee improvement efforts. Second, agricultural users may raise ability to pay issues relating to any new broad-based fees on water use for purposes of funding the Common Programs.

5. Crediting

This policy relates to reducing Program-related cost obligations to reflect payments made by obligees toward other parallel efforts to address Bay-Delta issues. An interim policy granting credit for cash contributed to the Category III Program has been approved by CALFED, but no principles regarding long-term crediting have been articulated. There has been a general assumption that some sort of expanded crediting would be developed. Perhaps the largest crediting issue relates to CVPIA Restoration Fund payments. Imposing new CALFED cost obligations for ecosystem restoration without crediting CVPIA payments may be inequitable. As part of the long-term crediting policy, several details must be decided, including the start date for crediting, types of fees to be crediting.

6. Cost Allocation Methodology

This policy relates to selection of particular cost allocation techniques for making detailed cost allocations within the sphere of a benefits-based cost allocation approach. No policy decision has been articulated here, although individual CALFED agencies have historical policies relating to cost allocation techniques. Within the stakeholder community, there is general consensus that while traditional methodologies may be applicable for conventional facilities, they may not be appropriate for use with the Common Programs due to the difficulty in including non-market benefits created by the Common Programs in the allocation process.

Status

The BDAC Finance Work Group has discussed these issues since its inception. Generally, the group has reached some level of consensus on the broad policy issues, but continues to struggle with the detailed implementation of these policies. A statement of the broad policy agreements is feasible for the draft EIR/EIS, but resolution of the details will need to be resolved later.