

FINANCE WORK GROUP
STATUS

E - 0 1 3 4 5 9

E-013459

BDAC FINANCE WORK GROUP STATUS REPORT

Summary

The Finance Work Group was established as a way to ensure that the Bay Delta Advisory Council (BDAC) and the public have sufficient opportunity for participation in development of the Financial Strategy for the long-term solution (Solution) currently being developed by the CALFED Bay Delta Program (Program).

A number of policy issues have been identified for initial review prior to the end of 1996:

- Identifying financial participants
- Use of economic incentives for implementation
- Revenue alternatives
- Implementation structure
- Cost allocation principles and methods

Consideration of these issues has already begun, and some initial policy recommendations have been developed. In each case, Program staff has prepared a white paper which provides background on the issue as well as recommended Program policy.

Key policy issues which have been discussed to date are:

- Principles for determining financial participation
- Fundamental cost types and use of bonding to spread costs over time
- Usage of economic incentives for implementation

A schedule has been established for consideration of the remainder of the important policy issues over the next few months.

Introduction

PURPOSE AND NEED

Some of the policy issues related to the Financial Strategy are too complex for a full discussion in a large meeting setting, yet these issues are critical for BDAC and the public to understand and support. This situation creates a need for a smaller, more focused group to investigate and consider Financial Strategy policy options and implications. The purpose of the Finance Work Group is to provide this smaller, more focused group as a forum for addressing policy questions related to the Financial Strategy.

MISSION AND GOALS

The mission of the Finance Work Group is to provide BDAC and the public with the assurance that all realistic policy alternatives for the Financial Strategy have been discussed and evaluated by a group representing the diversity of the public and private interests involved in the Program, and that decisions made on the Financial Strategy policy questions have been made in consideration of the relative advantages and disadvantages of each alternative approach.

The specific goals are to review the list of critical policy questions for the Financial Strategy, define the realistic alternatives, discuss and evaluate these alternatives, and summarize the results of this effort in one or more reports to BDAC and the larger public.

MEMBERSHIP AND INVITED PARTICIPANTS

BDAC Membership:

Eric Hasseltine, Chair
Roberta Borgonovo
David Guy
Rosemary Kamei
Tom Maddock

Invited Guests:

Craig Stroh, USBR
David Yargas, EDF
Ray Hoagland, DWR
Amy Fowler, SCVWD

David Orth, WWD
Susan Pantell, Bay Institute
Peter Von Haam, MWDSC
Rich Golb, NCWA

Michelle Wong, DWR
Jeff Phipps, NCPA
Lora Steere, EBMUD
Marc Luesebrink, Resources

Dennis O'Connor, State Library
Keena Lipsitz, MWDSC
Tom Clark, KCWA

Stephen Guine, MWDSC
Bert Becker, MWDSC
Mark Newton, CA LAO

Fred Cannon, B of A
Dan Nelson, SLDM

Major Issues

The initial issue list for the Finance Work Group, as reviewed by BDAC after the Group's first meeting earlier this year, was as follows:

- 1 Cost Allocation Methodology
 - 1 financial capability
- 2 Budget Issues
 - 1 constraints on total budget
 - 2 cost effectiveness
 - 3 prioritization assuming limited resources
- 3 Alternative Statewide Revenue Sources
- 4 Financial Structure
 - 1 to address assurances issues (for example, a revenue utility concept)

The initial issue list developed for the Finance Work Group has been organized and expanded in subsequent meetings to include the following key issues:

A. IDENTIFYING FINANCIAL PARTICIPANTS

- Principles for identifying financial participants
- Developing participant list

The primary basis for financial participation has been identified as receipt of benefit from the Solution. The major alternative approach, based on who is responsible for causing the problem, has been determined to be impractical for two reasons:

1. Because damage has been accumulating for over a century, many of those responsible are not here to participate.
2. For those who are here, the damage functions (i.e. who is responsible for what

portion of the problem) are difficult to assess.

Despite uncertain damage functions, there are those who have some responsibility for the Solution based on historical or physical connection to the delta even though they may not receive direct benefits from the Solution. Such parties are also candidates for financial participation in the Solution.

B. USE OF ECONOMIC INCENTIVES

Creating a system of market incentives to motivate implementation of the Solution, as opposed to direct implementation of programs and projects, is a fundamental policy choice. While it is recognized that in certain instances a strictly market approach does not provide adequate performance safeguards, the advantages of the incentive approach are too attractive to discard. The recommended approach is to consider the uses of economic incentives wherever possible, supported by regulatory standards and enforcement as a way of guaranteeing performance levels.

C. REVENUE ALTERNATIVES

Selecting the appropriate revenue tools to use to provide funding for the Solution raises fewer policy issues, but there are some. For example, should existing revenue sources be used, or should new ones be developed? How should revenue streams be made secure for ecosystem purposes? What are appropriate statewide revenue sources to supplement G.O. bonds?

D. IMPLEMENTATION STRUCTURE

The implementation structure is the central topic for the Assurances Work Group, but there are overlapping policy issues:

- What is the appropriate level of centralization for financial purposes?
- Does the structure need to include new revenue sources?
- Should revenue be dependent on receipt of benefits?

E. COST ALLOCATION

This set of issues relates to the procedures for determining how much is paid by each financial participant. The two steps are, first, to determine principles by which the

allocation methodologies should be evaluated, and second, to select appropriate allocation methodologies. The question of establishing a financial baseline, and consideration of existing CALFED agency cost allocation policies will also enter into the allocation discussion.

Next Steps

DISCUSSION ITEMS FOR SEPTEMBER BDAC MEETING:

- 1 Financial Participant Principles
 - 1 Public vs. Private
- 2 Financial Example
 - 1 Types of costs and revenue implications
 - 2 Use of bonding
- 3 Implementation Approaches
 - 1 Description of alternative approaches
 - 2 Recommendation
 - 3 Example(s)

UPCOMING WORK GROUP MEETINGS:

- Thursday, September 19, 1996 Topic: Revenue Alternatives
- Thursday, October 17, 1996 Topic: Implementation Structure