

5.3 Finance Plan

Draft 5/24/99

With the signing of the Record of Decision, scheduled for June 2000, CALFED will need to have a financing plan in place to begin implementation. In fact, early implementation of portions of the program will begin in 1999 with existing funding sources. To be prepared for program implementation, a finance plan is needed to guide State and federal administration and legislative discussions regarding new bonds, new fees, and proposed budget appropriations.

The Draft Finance Plan contained in the Implementation Plan Appendix lays the initial framework for developing a CALFED Finance Plan. The Plan provides background, definitions, description of program benefits, description of possible funding sources, financing options, and issues to resolve to finalize a Finance Plan. CALFED will work to complete the Finance Plan in 1999, but no later than the time of the ROD.

The Finance Plan for implementing the CALFED Bay Delta Program is a critical component of the program because of the assurance needed by member agencies and stakeholders that a serious and concerted effort will be made to secure funding for all components over the life of the program. In developing financial strategies and cost sharing for the many aspects of the CALFED program, CALFED is following several basic steps:

- Identifying the priority actions for implementation
- Developing cost estimates for priority actions
- Identifying the funding and cost sharing formulas in existing laws and agreements
- Identifying program/project benefits and beneficiaries
- Identifying finance issues that affect the successful implementation of the program (promoting new technologies, changing attitudes/behaviors, ability to pay problems, characteristics of funding sources limiting program implementation)
- Lastly, but not included in this draft, recommending the cost allocation and cost-sharing procedures and strategies for each program element and in some cases for individual projects

A fundamental philosophy of the CALFED program is that costs should, to the extent possible, be paid by the beneficiaries of the program actions. There are reasons, other than equity and fairness, that the beneficiaries pay principle be applied to CALFED and other water resources programs. Having beneficiaries pay for public programs encourages them to more carefully review their water and power needs and the costs of proposed programs (including mitigation costs) in relation to the benefits they receive. Such a policy also encourages examination of a fuller range of alternatives, including locally funded measures, in order to

assure that public funds are spent in the most cost-effective way to meet program goals.

Historical Financing. CALFED's finance strategy must be considered within the current and historical context of state and federal water resources financing. Historically, federal water projects have been financed with appropriations and, in some cases, repayment was provided by beneficiaries at below market rates of interest (or no interest). This resulted in historically low levels of effective cost-sharing. Since the 1980's, federal water resources agencies have been requiring higher levels of nonfederal cost-sharing, through higher levels of up-front cost sharing and other means. The Central Valley Project Improvement Act of 1992 enacted tiered water rates, Mitigation and Restoration payments, and other fees to be deposited into a Restoration Fund to be used for environmental purposes. Financing for the State Water Project relies principally on general obligation bonds and revenue bonds, with revenue bonds being backed by payments from water and power users which provides large repayment levels. In general, there has been a shift in federal and state water financing toward higher levels of repayment and higher effective cost shares by local entities.

Program Benefits/Beneficiaries. At this time, because many of the actions have not yet been specified, (e.g. water use efficiency actions, storage sites), the specific benefits cannot be identified or measured, and program costs cannot be allocated to those benefits. In other cases, such as ecosystem restoration, benefits can be identified but not easily measured. However, to initiate the finance discussions, and lay the framework for a CALFED finance strategy, the Draft Finance Plan identifies expected benefits and beneficiaries at the program level. For actions where benefits can be measured, the program or project costs will be allocated among the measured benefits. In the final Finance Plan a specific cost allocation procedure will be identified. For those programs where benefits cannot be reasonably measured (ecosystem, water quality, watershed programs), CALFED will need to identify a procedure or strategy for estimating and allocating costs. After the benefits analysis and cost allocation, CALFED may propose cost shares among beneficiaries that differ from existing state and federal cost-sharing formulas or may use the cost-sharing formulas in existing programs.

The benefits from each program area (both near-term and expected future benefits), are described in the Draft Finance Plan. In addition, the Draft Finance Plan identifies cost allocation and cost-sharing issues, and potential cost-sharing options. In general, the options differ financially (the extent to which they require higher levels of repayment from beneficiaries), or institutionally (in terms of what mechanism they rely on to secure repayment, ranging from existing programs, up-front cost-sharing, recovery through water rates, or recovery through other user charges). Some of these options address user fees targeted at the beneficiaries of a particular program (e.g., directly linked to a group of benefitting water districts, such as Delta diverters).

Financing Mechanisms. The Draft Finance Plan compares several different financing mechanisms, all of which have been used to date and are expected to be used in the future, including state and federal appropriations, state general obligation bonds, state water and power revenue bonds (tied to SWP water and power rates), private financing, user fees and a broad-based Bay-Delta system diversion fee. The advantages and disadvantages of these various funding sources and financing mechanisms are also described. (See Table X)

**Table X
Potential Funding Sources -- Advantages and Disadvantages**

Option	Advantages	Disadvantages
General obligation bonds	Can achieve substantial up-front funding, but distribute the financial burden over time. Focuses stakeholders and the public on next program phase.	Requires legislative and voter approval. Would require repeated approval over 30-year period. Cannot be used for ongoing costs such as land management costs, monitoring and assessment
Water and power revenue bonds	Can provide immediate sources of funding if linked to revenue-generating facilities. Less burden on state budgets than general obligation bonds. Does not require voter or legislative approval. Linking beneficiaries to programs in SWP rates is consistent with beneficiary pay.	Works well for private benefits (water deliveries and powers), but hasn't been used to cover programs with broad public benefits.
State appropriations	Provides immediate sources of funding. Focuses stakeholders and the public on next program phase.	A more direct financial burden than bonds. Competition with other state programs. Requires legislative approval. Would require repeated approval over 30-year period.
Federal appropriations	Provides immediate sources of funding. Focuses high-level state and federal attention on the program.	Competition with other federal priorities. Requires legislative approval. Would require repeated approval over 30-year period.
Private financing	Can be more immediate than funding from public sources. Some contributions have been made to solve regional problems, as well as local problems.	Is generally focused on local needs.
Broad-based diversion fee	Dependable and ongoing source of revenues (may fit with programs for ongoing funding needs). Tied to diversion impacts on the Delta. A broader-based fee would provide consistency and fairness with CVP users, who currently pay such fees. Supported by stakeholder groups - Business Roundtable, etc.	Potential resistance from water users. Since revenues come in annually, the funding available initially is less than with bonding or appropriations.

CALFED and CALFED stakeholders have discussed the use of a broad-based Bay-Delta system diversion fee, particularly to finance some of the programs or actions with public benefits, such as the Ecosystem Restoration Program (such a fee is discussed, for example, in the 1996 report on Financing Options produced by the California Business Roundtable, the California Chamber of Commerce, the California Farm Bureau Federation, and the California Manufacturers Association). This diversion fee would most likely apply to all major diverters of water from tributaries that flow into the Delta, as well as exporters of Delta water. The Draft Finance Plan explores how such a broad-based diversion fee could be structured and what revenues could be expected for fees similar to those established in the CVPIA. The crediting of CVPIA revenues and other contributions to date would be an integral part of implementing any broad-based diversion fee.

Stage I Cost Estimates

(Include intro paragraph and table with Stage I cost estimates)

Pre-ROD Finance Actions

- Select cost allocation and cost-sharing procedures and strategies for each program or individual projects
- Propose financing strategy for Years 1-7 -- including what user fees, bonds, and other funding sources will be pursued.
- Finalize a crediting policy
- Finalize cost-sharing agreements

~~TABLE 6~~

Numbers being updated

ESTIMATED CALFED STAGE 1 PROGRAM COSTS IN MILLIONS

<u>PROGRAM AREA</u>	<u>TOTAL COST</u>
Ecosystem Restoration	965
Water Use Efficiency	1,800
Water Transfers ¹	5
Watershed Management	270
Water Quality	250
Levees	250
Storage ²	230
Conveyance	675
CMARP	<u> </u> ³
TOTAL⁴	4,445

¹Costs for this program appear low because there are no capital costs associated with the Water Transfer Program

² Includes South of Delta groundwater (145), North of Delta groundwater (15), surface storage pre-permitting and EIR/EIS compliance work only (70).

³ Total stage 1 costs for CMARP are not available at this time.

⁴ CALFED (or other coordination entity) management/overhead costs and other State and Federal agency costs are not included. O&M and interest are also not included.

TABLE 1

*Numbers
being updated*

ESTIMATED CALFED STAGE 1A PROGRAM COSTS IN MILLIONS

<u>PROGRAM AREA</u>	<u>FY 2000</u>	<u>FY 2001</u>	<u>TOTAL STAGE 1A</u>
Ecosystem Restoration	92	101	193
Water Use Efficiency	30	89	119
Water Transfers	1	1	2
Watershed Management	40	40	80
Water Quality	15	13	28
Levees	35	35	70
Integrated Storage Investigation	19	23	42
Conveyance	16	15	31
CMARP	5	5	10
TOTAL	253	322	575

*Should Stage 1A
also be
included?*