Agenda Item 10
DRAFT
Finance Options Report
Overview

- Objectives of the Report
- Participants, Process & Schedule
- Analysis used to Develop Options
- Findings
- Next Steps
The Challenge

Take a very complex topic with great uncertainty and high political sensitivity…

AND

Generate options that can provide information and guidance to decision-makers regarding funding priorities
Why Do a Finance Options Report?

- Status quo approach of relying on state funding unlikely in the future
- Existing funding gone after 2006-7
- Water user fee Budget Act requirement
- Benefits-based financing principle in ROD
- Coordinate financing among Program Elements
What this Report Does (and Doesn’t Do)

It Does Not:

- Recommend finance formulas or allocations
- Optimize Program design
- Resolve short-term funding gaps
- Critique/Propose changes to historical pricing structures
What this Report Does (and Doesn’t Do)

It Does:

• Build an understanding of Program costs and benefits
• Provide reasonable and instructive finance options
• Provides tools to assist decision-makers
Participants

• **Technical Team**
  - Consultants & BDA staff developed Finance Options Report

• **Ad Hoc work group**
  - 18+ member work group (stakeholders, legislative reps, & agency managers) reviewed report and served as sounding board for Technical Team and provided input to Panel

• **Independent Review Panel**
  - 8 member panel made up of academics and practitioners who are experts in public financing providing advice on finance analysis and reasonableness of finance options
Process & Schedule

- **Fall '03**: Framework & Issues Report
- **Jan '04**: Working drafts
- **Feb '04**: Ongoing Panel & Stakeholder Review
- **Mar '04**: Draft Options Report
- **Apr '04**: Authority Mtg
- **May '04**: Authority Mtg
- **June '04**: Panel Mtg
- **Aug '04**: BDPAC Mtg, Public input

- **Ongoing Panel & Stakeholder Review**
Analysis Used to Develop Finance Options

1. What will it cost?
2. What are the benefits?
3. Who are the beneficiaries?
4. How should costs be allocated?
5. What are the finance tools?
What will it cost?

- Cost estimates for 2006-2030
- Relied on current program descriptions
- Excluded highly uncertain programs & projects
- Used example project for Surface Storage
What are the Benefits?

• Water supply (yield & reliability)
• Drinking Water Quality
• Ecosystem Improvement
• Flood Protection
• Hydropower
• Recreation
Who are the Beneficiaries?

Public: State & Federal Taxpayers

Water Users: Delta Exporters (SWP, CVP)
   All other Bay-Delta System Diverters

Local: Local agencies, local landowners, local matching

Recreation: Fishing, boating

Commercial Fishing

Hydropower
How should costs be allocated?

Develop Allocation Examples

- Reasonable and instructive examples
- Follow benefits-based wherever possible
- Or use other allocation methods (Status quo, ROD, Divergent points of view)
- Ignore Incidental Beneficiaries
What are the Finance Tools

Finance Tools for the Public Share

• State General Obligation Bonds
• General Funds
• Federal appropriations
What are the Finance Tools

Finance Tools for the User Share

- Self Liquidating GO Bonds
- State Revenue Bonds
- SWP contractor charges
- CVP contractor charges
- JPA Revenue Bonds
- Local matching contributions
- New State Administered Fees
Key Findings

- Expected future costs
- Programs/projects we can apply a benefits–based allocation
- Priorities for public/user funding
- Potential impact on state, federal and user funding
- Programs that could broaden cost-sharing
Findings: Expected Costs

- Costs reflect a mix of funding sources
- Need to narrow cost range
- Estimate $600 mill - $1 bill/ year
- Local cost accounting remains a challenge
## Findings: Expected Costs

<table>
<thead>
<tr>
<th>Program Element</th>
<th>Ann. Avg (Mil.$)</th>
<th>2006-2030 (Mil.$)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Low</td>
<td>High</td>
</tr>
<tr>
<td>Conveyance</td>
<td>21</td>
<td>36</td>
</tr>
<tr>
<td>Ecosystem Restoration</td>
<td>150</td>
<td>240</td>
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<tr>
<td>Environmental Water Account</td>
<td>30</td>
<td>30</td>
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<tr>
<td>Drinking Water Quality</td>
<td>21</td>
<td>56</td>
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<tr>
<td>Levees</td>
<td>41</td>
<td>74</td>
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<tr>
<td>Storage (only 1 surface project as example)</td>
<td>87</td>
<td>167</td>
</tr>
<tr>
<td>Watersheds</td>
<td>10</td>
<td>40</td>
</tr>
<tr>
<td>WUE (Mostly local; public $40-$50 Mil./yr)</td>
<td>170</td>
<td>380</td>
</tr>
<tr>
<td>Science</td>
<td>43</td>
<td>43</td>
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<tr>
<td>Oversight</td>
<td>10</td>
<td>10</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$583</strong></td>
<td><strong>$1,076</strong></td>
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</table>
## Findings: Expected Benefits

<table>
<thead>
<tr>
<th></th>
<th>Now</th>
<th>Likely - Near Term</th>
<th>Maybe-Long Term</th>
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<tbody>
<tr>
<td>Conveyance</td>
<td>X (Supply &amp; DWQ)</td>
<td>X (Flood Protection)</td>
<td>X (Ecosystem)</td>
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<td>ERP</td>
<td></td>
<td></td>
<td>X</td>
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<tr>
<td>EWA</td>
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<td>X (Supply)</td>
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<td>DWQ</td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Levees</td>
<td>X (Flood Protection)</td>
<td>X (Supply, DWQ, Recr)</td>
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<tr>
<td>Storage</td>
<td></td>
<td>X (Supply, DWQ, Flood, Hydro, Recr)</td>
<td>X (Ecosystem)</td>
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<tr>
<td>Watersheds</td>
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<td></td>
<td>X</td>
</tr>
<tr>
<td>WUE</td>
<td>X (Supply)</td>
<td></td>
<td>X (Ecosystem)</td>
</tr>
</tbody>
</table>
Findings: Benefits & Mitigation

• When benefits could not be quantified—Example Allocations based on divergent points of view
• For ERP and other elements
  – Public pays allocation
  – Water User pays allocation
Findings: Expected Benefits

- Benefits-based analysis offers mixed potential
- Shortage of quantitative economic data
- Information can support broader group of beneficiaries than currently paying
Findings: Summary of Estimated Cost Allocations

Public Funding Emphasis
- General Public: 65%
- Users: 35%

Bay Delta User Emphasis
- General Public: 30%
- Users: 70%
Findings: Programs Suited to Water User fee

• Fee is best suited to programs with broader water user benefits & not able to identify individual beneficiaries
  – Ecosystem Restoration
  – Environmental Water Account
  – Drinking Water Quality
  – Delta Levees
  – Watershed
<table>
<thead>
<tr>
<th>Program Element</th>
<th>Taxpayer Shares</th>
<th>Bay-Delta Resource User Shares</th>
<th>Local Contributions</th>
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<tbody>
<tr>
<td></td>
<td>State</td>
<td>Federal</td>
<td>CVP/SWP Charges</td>
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<tr>
<td>Storage</td>
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<td>29 - 86</td>
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<td>18 - 35</td>
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<tr>
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<td>3 - 35</td>
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<tr>
<td>EWA</td>
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<td>5 - 12</td>
<td>0 - 0</td>
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<tr>
<td>Levees</td>
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<td>DWRQ</td>
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<td>Watersheds</td>
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<td>3 - 18</td>
<td>0 - 0</td>
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<tr>
<td>O&amp;C</td>
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<td>0 - 6</td>
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<tr>
<td>Science</td>
<td>11 - 16</td>
<td>6 - 15</td>
<td>12 - 24</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$111 - $378</strong></td>
<td><strong>$62 - $276</strong></td>
<td><strong>$59 - $204</strong></td>
</tr>
</tbody>
</table>

<sup>1</sup> Includes $11-$13 million for recreational fees associated with a new surface storage project; $0-$3 million per year for boater fees associated with the Delta Levee Program; and the remaining fee amount is for a water user fee ranging from $9-$142 million per year.
New State Administered Fees

Fee versus Tax:

• Need a Nexus between level of benefits and amount paid in fees
• Each program in CALFED has different set of beneficiaries that would result in varying fee levels among water users
Possible Fee Options

- Diversion Fee
- Retail Fee
- Residential or End User Fee
- Boater Fee
Next Steps

1. Identify where additional data to quantify benefits is needed and worth the investment
2. Revise cost estimates and allocations
3. Assist in optimizing investments
Next Steps

4. Develop accounting system to track benefits related to costs/investments
5. Identify local investments that contribute to CALFED objectives
6. As appropriate, develop finance recommendations
Questions