Item 7

Finance Options Report and 10-Year Finance Plan

(Informational Item)
10 Year Finance Plan

Reasons

• Significant drop in available funding after 2006-7
• Continued Status Quo reliance on public funding and bonds is in question
• Benefits-based financing principle
• Avoid disjointed Program Element plans & funding
10 Year Finance Plan

Objective

Develop a “Plan”:

Which for many parts will still require Federal or State Legislative authorization and appropriation, and voter approval

Which CALFED agencies and stakeholders will embrace and use to create a common voice for future CALFED funding
10 Year Finance Plan Process

- Extensive stakeholder & agency participation – bottoms-up approach
- Develop initial funding targets, identify available funding & unmet funding needs
- Develop Issue Papers for each Program Element
- Develop Straw Proposals – narrow the issues
10 Year Finance Plan Schedule

September
- Distribute/Discuss Issue Papers @ BDPAC
- Possible Public workshop
- Stakeholder/agency outreach
- Develop Finance Straw Proposals/ Narrow the Issues

October
- Distribute/Discuss Finance Proposals @ BDA
- Stakeholder/agency outreach on open issues
10 Year Finance Plan Schedule

November 2004

– Possible BDPAC meeting
– Stakeholder/agency outreach on open issues
– As needed, proposals included in Governor’s Proposed FY 2005-06 Budget

January – June 2005

– Continued discussions on Governors’ Proposed Budget with stakeholders and Legislature
10 Year Finance Plan Principles

- Support CALFED Solution Principles
- Follow a Benefits-Based Approach
- Distinguish Public and User Benefits
- Adopt Reasonable Funding Targets (total)
- Require Mid-point Evaluations
- Develop Accounting System for Benefits and Costs
Benefits-Based Approach

• Identify Program objective /actions
• Develop funding target to support objective
• Identify measure benefits
• Identify beneficiaries
• Develop benefits based allocation of costs based on best information available
# 10 Year Funding Targets & Unmet Needs

($ in Millions)

<table>
<thead>
<tr>
<th>Program Element</th>
<th>Funding Targets</th>
<th>Available Funding</th>
<th>Unmet Needs</th>
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</thead>
<tbody>
<tr>
<td>Ecosystem Restoration</td>
<td>$1,701.3</td>
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<td>$1,304.3</td>
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<td>Environmental Water Account</td>
<td>$403.7</td>
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<td>Water Use Efficiency</td>
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<td>Watershed</td>
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<td>$47.0</td>
<td>$236.6</td>
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<tr>
<td>Drinking Water Quality</td>
<td>$200.1</td>
<td>$7.0</td>
<td>$193.1</td>
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<tr>
<td>Levees</td>
<td>$485.8</td>
<td>$40.8</td>
<td>$444.9</td>
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<tr>
<td>Storage</td>
<td>$982.2</td>
<td>$410.0</td>
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<tr>
<td>Conveyance</td>
<td>$323.2</td>
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<tr>
<td>Science</td>
<td>$499.3</td>
<td>$147.0</td>
<td>$352.3</td>
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<tr>
<td>Oversight &amp; Coordination</td>
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<td><strong>Total</strong></td>
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<td><strong>$1,711.6</strong></td>
<td><strong>$5,643.0</strong></td>
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Finance Issue Papers

Common Finance Issues

1. Is there agreement on the **Funding target**?
2. Should **priorities** be adjusted to reduce funding target?
3. Is there an issue regarding the amount and source of **available funds**?
4. Are there **future studies/information** that could affect the targets or allocations?
5. Are there **regulatory or programmatic threshold issues** that affect the funding target?
6. What are the **options for allocating costs**?
7. Are there **timing/linkage issues** on when a cost allocation should be initiated?
10 Year Finance Plan
Program Element Issues

1. Storage, Conveyance, WUE
2. Watersheds, DWQ, Science
3. Levees, EWA, ERP
Storage

• Background
  – Two Primary Components
    • Surface Storage & Groundwater Storage
  – Surface Storage:
    • Public funds to date ($48 mill state, $22 mill fed)
  – Groundwater Storage
    • Prop 13 funding approx $200 mill
    • Local matching approx $700 mill
Storage

- **Program Status**
  - **Surface Storage**
    - Only Planning costs discussed; allocation for construction premature
    - Planning target $60 mill; avail funding $37 mill, unmet need $23 mill
  - **Groundwater Storage**
    - Prelim target $55 mill/yr; based on 500 TAF target
    - No Prop 50 bonds directed for groundwater
Storage
--Critical Issues--

1. Funding Gap for Surface Storage Planning
   - Agreement: Need to prioritize projects to complete planning; which will reduce / eliminate funding gap;
   - Key information: At what point in 2005 will information be available to prioritize;
   - Recommendation not ready for Finance Plan this Fall & Governor’s Proposed Budget

2. Reimb. For State Plng Costs
   - Differing Views: Disagreement on whether state funding should be repaid by beneficiaries if project goes to construction.
Storage
--Critical Issues--

3. What is an appropriate level of public funding for Groundwater construction projects?

- **Agreement:** Public funding is justified for feasibility, pilot projects & monitoring costs

- **Differing views uncertain:** Certain water users support continued public funding for construction. Other stakeholders have not expressed opinions.

- **General issue:** To follow a benefits based approach—only projects that have broad public benefits should receive public funding. What is reasonable public contribution? Determined on a project by project basis?
Conveyance

• Background
  – 13 separate projects with multiple and varying benefits
  – Projects in different stages of development
  – Approx. $125 million spent to date
    • (State, Fed, SWP, CVP sources)
  – Allocation funding not discussed for several Capital Projects
Conveyance

- **Program Status**
  - Funding target: ~$300 mill over 10 years
  - Available funds: ~$100 mill. (shown in table)
  - Funding gap: ~$200 mill
    - Prop 50 adds another $70 mill. avail funding
    - Bonds funds limited to South Delta and Fish protection actions
  - Focused review of bond funds underway to maximize available bond funds and narrow the funding gap
Conveyance
--Critical Issues--

1. **Permanent Barriers**: *Agreement* to use available bond funds directed to this project – no unmet needs

2. **Franks Tract**:
   - *Agreement*: Phased approach with pilot ($15 mill); uncertainty over who benefits
   - *Differing views*: How 1st phase/pilot is funded; what mixture of CVP, SWP funding and public funding; minimal bond funds available
Conveyance
--Critical Issues--

3. **Interim S. Delta:**
   - *Agreement:* Continue to rely on SWP

4. **Aqueduct/Canal Intertie:**
   - *Agreement:* Use fed and CVP dollars

5. **Planning Studies**
   - *Agreement:* Relative priority of each plng study, and cost allocation for several plng studies (SLLP, CC/Tracy intertie),
   - *Differing views:* Cost allocations for remaining low priority studies
Water Use Efficiency

• Background
  – Four primary components
    • Urban water conservation, ag water conservation, recycling, and desalination
  – Nearly $700 million spent from 2000 to 2004
    • Primarily State and local funding
    • Recycling higher than Conservation due to local cost share
    • Significant local spending apart from CALFED
Water Use Efficiency

- Program Status
  - Four Year Comprehensive Study
    - Look forward draft due late Sept
  - Study guides Conservation funding targets and public and local cost shares
  - Prelim. Annual Funding Target: $182 mill/yr
  - Total Available Funds: ~ $350 mill.
  - Significant gap projected: ~$2.0 bill
Water Use Efficiency
--Critical Issues--

1. Funding Targets

Conservation:

- *Agreement*: measurable outcomes; invest in cost-effective actions; mid-point evaluations
- *Differing views*: level of funding target
- *Key Information*: Year Four Study/ Look forward

Desalination:

- No current basis for funding target
2. Funding options/allocations

Conservation:

- *Agreement:* continue benefits based allocations decided on project by project basis;
- *Differing views:* Average % split between public and local share; urban and ag.

Recycling:

- *Agreement:* Some level of public funding is justified
- *Differing views:* Maintain status quo of 55% local share or increase to reflect greater local cost-effectiveness
Questions /Discussion on:

• Storage
• Conveyance
• WUE
Watersheds

• Background
  – Program focus:
    • Financial assistance for watershed assessments and local projects
    • Also provides tech assistance, science and admin
  – Average funding since 2000: $27 mill./year
    • 75% of funding comes from state; remainder from grant matching funds
    • Significant spending apart from CALFED
Watersheds

• Program Status
  – Prelim. Annual Funding Target: $25 mill./yr
    – Based on Program ROD Target, projected work, & budget constraints
    – Near-term funding focused on capacity building and assessments; later years shifted to implementation
  – Total Available Funding: $47 million (bonds)
  – Significant Gap Projected: $236.6 million
Watersheds
--Critical Issues--

1. Funding target

• Agreement:
  – There is general agreement on the funding target of (at least) $25 mill/yr **IF**... Water users are not required to contribute funding through a diversion fee.
Watersheds

2. Funding option/allocation

• *Agreement*: Beneficiaries-pay. Contributions from Project-specific beneficiaries should be based on benefits received.

• *Differing Views*:
  – Water users largely oppose Bay-Delta System diversion fee because benefits do not justify a fee. Watershed Subcommittee has not ruled out fee
  – Water users generally support voluntary cost-shares on a project-by-project basis.
  – Level of Public funding dependent on amount to allocate to other beneficiaries
Drinking Water Quality

• Background
  – Primary components
    • Source Improvement
    • Treatment
    • Science, monitoring, & assessment
    • Regional ELPH planning
    • Program management and oversight
  – Funding to date averages ~$20 mill/yr
    • ~90% state funding to date
    • ~50% of funding for nonpt source improv. & 20% for SJ valley /S. Cal exchange program
Drinking Water Quality

• Program Status
  – ELPH regional planning will shape long-term funding targets and priorities; targets below will cover the near-term and require a mid-point evaluation
  – Prelim. Funding target: ~$18 mill/yr
  – Minor Avail. Funds: $7 mill excluding Prop 50
  – Significant Funding gap: ~ $195 mill
Drinking Water Quality --Critical Issues--

1. Source Improvement ($108 mill)
   • Agreement: Local & public fund split based project specific benefits. Need public funds to motivate local actions.
   • Unresolved: Recommended average funding split public/local

2. Treatment ($34 mill)
   • Agreement: Primarily public funding for research and pilot projects; small local cost share; No funding at this time for full treatment implementation
Drinking Water Quality
--Critical Issues--

3. Regional ELPH planning ($14 mill)
   - Agreement: DW subcommittee support public funding for the plans with local cost share on sliding scale

4. M&I Water User Contributions
   - Agreement: Water User should pay for program benefits
   - Differing views: Water users only support a contribution on a project-by-project basis. Certain environmental interests still considering the appropriateness of a diversion fee on M&I users
Science

- **Background**
  - Primary components
    - CBDA Science Program
    - Interagency Ecological Program
  - CBDA Science
    - Funding to date averages ~ $10 mill/yr
    - All public; primarily state funding
  - IEP funding
    - Funding to date $13 - $16 mill/yr
    - Funding Agreement (SWP, CVP, State & Federal sources) covers ~ $11 mill/yr
Science

- **Program Status**
  - **CBDA**
    - Funding target: $30\text{mill/yr}$
    - Available funds: $\sim$ $35\text{mill total}$
    - Significant Funding gap: $\sim$ $300\text{mill}$
  - **IEP**
    - Funding target: $30\text{mill/yr}$
    - Available funds: $\sim$ $100\text{mill total}$
    - Funding gap: $\sim$ $45 \text{ mill}$
1. **Funding Targets**
   - *Agreement:* Minimal concern on funding targets; additional review continuing by water users to ensure CBDA and IEP coordinated. Need for periodic performance review.

2. **Funding Allocations**
   - *Unresolved:* Water users generally support public funding and no water user contribution for CBDA science; and support status quo allocation for IEP.
3. IEP Priorities & Funding
   • *Agreement:* General agreement among water users to retain IEP as distinct program for monitoring and research directly related to SWRCB requirements for Water Projects.
Questions /Discussion on:

• Watershed
• Drinking water Quality
• Science
Levees

• **Background**
  – Primary components
    • Levee Maintenance (subventions)
    • Levee Improvements (Special projects & PL 84-99)
    • Emergency Response Reserve
    • Planning, Risk Study, Science & Studies
    • Program mgmt, oversight, coordination
  – Funding since 2000: ~$85 mill total; ~$20mill/yr
    • Primarily % state funding
    • Significant funding prior to 2000
Levees

• **Program Status**
  – Program review beginning due to:
    • Jones Track break;
    • New legislation required;
    • Finance Plan & possible export water user contributions
  – Check-in point needed
  – Funding target: ~$490 mill total; $45 mill/yr
  – Available funds: ~$40 mill total (Prop 50)
  – Significant Funding gap: ~$450 mill total
Levees
--Critical Issues--

1. Program Review/Strategic Plan
   • Agreement: Scope & need to expedite risk study & plan
   • Unresolved: Timeline, Funding needs and sources

2. Federal contributions
   • Agreement: Need federal funding for levee improvements but not levee maintenance
   • Unresolved: Should funding be sought from federal fish and wildlife agencies in addition to USACE?

3. Boater contributions
   • Differing views: If recreational boaters benefit from and impact the levees and therefore should contribute.
Levees
--Critical Issues--

3. Local contributions
   • **Agreement**: Local districts should continue to support the locally-driven maintenance component.
   • **Unresolved**: Levee Maintenance
     • What local share is for maintenance; if local share should be sliding based on ability-to-pay.
   • **Unresolved**: Levee Improvements
     • If local share should be required and at what level or for what activities; if local share should be based on ability-to-pay

4. Water user contributions
   • **Differing views**: Export Water Users don’t want to agree to contribute to levee program until results of Risk study and Strategic plan.
Ecosystem Restoration

• Background
  – Nearly $650 million spent between 2000 and 2004
    • Primarily State and water user funding
  – Pre-ROD contributions totaled $282 million
    • Federal government provided majority of pre-ROD funding
Ecosystem Restoration

• Program Status
  – Annual Funding Target: $150 million/year
  – Total Available Funds: ~ $397 million
  – Significant gap projected:
    • ~$1.3 billion gap over 10 years
    • Shortfall begins in Year 6
Ecosystem Restoration
--Critical Issues--

1. Funding Targets
   • *Differing views*: Agencies and environmental interests strongly support $150 as reasonable and modest target. Water user question justification for $150mill.

2. Export Regulatory Commitment
   • *Differing views*: Water users question the entire ERP funding linked Delta export reg. commitments. Agencies and env. interests support $150 link due to broader CALFED programmatic coverage.
Ecosystem Restoration
--Critical Issues--

3. Funding Options

• **Agreement:** Environmental interests strong support increased water user contributions. General agreement among some M&I water users that water users should contribute to ERP.

• **Differing views:** Water user in-depth review of ERP to identify water user benefits—not complete until October.
Ecosystem Restoration
--Critical Issues--

4. Restoration Fund

- CVPIA Restoration Fund contributions to ERP to continue at current $20 mil./year? Higher? Lower?

5. Potential contributions by other beneficiaries

- Are these incidental beneficiaries and/or currently contributing and therefore should not be included in an ERP allocation?
- Strong opposition expressed by DFG and fishing interests to additional fees on recreational fishing
Environmental Water Account

- **Background**
  - $170 mil. in “pilot program” funding from 2000 - 2004
    - Primarily State funding
  - 2004 EWA Evaluation
    - To determine appropriate size and composition of a long-term EWA program
Environmental Water Account

• Program Status
  – Science Program review panel assessing EWA operations and results
    • Review to be completed by Fall 2004
  – Prelim. Annual Funding Target: $33 mil./year
    • Higher target for first two years to establish bankroll fund
  – Total Available Funds: ~ $129 mill.
  – Significant gap projected: ~$274 mill
Environmental Water Account
--Critical Issues--

1. Funding Targets

- *Not significant disagreement*: Water users and agencies likely to reach agreement.


2. Available Funding--Prop 50 Chp. 7 (d) funds

*Unresolved*: What amount for bond funds can and should be used for EWA and for long-term purchases.
Environmental Water Account
--Critical Issues--

3. Funding Options

Agreement: General agreement that export water users will contribute to the EWA

Differing Views: (Timing and Shares)

--Export Water users -- complete science review; need near-term EWA agreement; need timing of contributions linked to operation of permanent barriers and Banks 8500 cfs.

--Enviro. Interests support water user contributions starting in current year
Questions /Discussion on:

- Levees
- Ecosystem Restoration
- EWA
10 Year Finance Plan

Next Steps

• Develop Straw Proposals / Narrow issues
• Continue outreach thru BDPAC Subcommittees and other ad hoc forums
• Limit remaining open issues
• Develop 10 Year Finance Plan for October BDA meeting