

# **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)

Program Element	Funding Targets	Available Funding	Unmet Needs
Ecosystem Restoration	\$1,701.3	\$397.0	\$1,304.3
Environmental Water Account	\$403.7	\$129.2	\$274.5
Water Use Efficiency	\$2,334.7	\$348.4	\$1,986.3
Water Transfers	\$6.0	\$6.0	\$0.0
Watershed	\$283.5	\$47.0	\$236.6
Drinking Water Quality	\$200.1	\$7.0	\$193.1
Levees	\$485.8	\$40.8	\$444.9
Storage	\$982.2	\$410.0	\$572.2
Conveyance	\$323.2	\$105.7	\$217.5
Science	\$499.3	\$147.0	\$352.3
Oversight & Coordination	\$134.9	\$73.6	\$61.3
<b>Total</b>	<b>\$7,354.6</b>	<b>\$1,711.6</b>	<b>\$5,643.0</b>

# 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 PIng 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 1<sup>st</sup> 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

# Water Use Efficiency

## --Critical Issues--

### 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: \$30mill/yr
    - Available funds: ~ \$35mill total
    - Significant Funding gap: ~\$300mill
  - IEP
    - Funding target: \$30mill/yr
    - Available funds: ~ \$100mill total
    - Funding gap: ~ \$45 mill

# Science

## --Critical Issues--

### 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.

# Science

## --Critical Issues--

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.
- *Mid-point evaluation:* Support for periodic EWA performance evaluation—reassess costs and benefits

### **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