

Agenda Item 8-12
CALFED Bay Delta Program
Finance Plan

Resolution 04-12-03. Resolution Recommending
Adoption of the CALFED Bay-Delta Program
Finance Plan

Reasons for Finance Plan

- Significant drop in available funding after 2006-7
- Can't continue status quo reliance on public funding and bonds
- ROD required benefits-based plan
- Need comprehensive finance plan

Purpose of the Finance Plan

Is to recommend a Plan to State and Federal governments that is based on reasonable funding needs and benefit-based cost shares that provides a framework to face the funding challenges

(Not to develop a plan based on worst case scenario of funding)

Finance Plan Process

- Extensive public, stakeholder & agency participation; “bottom-up” approach
- Develop funding targets based on program objectives/needs, identify available funding & unmet funding needs
- Develop Issue Papers and Funding Proposals for each Program Element

Finance Plan Schedule

December 2004

- BDPAC comment; BDA approve @ meeting
- As needed, proposals included in Governor's Proposed FY 2005-06 Budget
- Finalize Finance Plan based on comments & changes ID at BDA/BDPAC meeting

January –June 2005

- Continued discussions with agencies, stakeholders, and Legislature

Finance Plan Updates

Annually

- Identify annual funding priorities as needed
- Program Plan Process
 - Adjust priorities and actions to reflect available funding
 - Update funding targets/needs

Periodic

- Element updates/evaluations
- Finance Plan revised 2-5 yrs

Ongoing

- Research & analysis of benefits & beneficiaries

Finance Plan Principles

1. CALFED Solution Principles
2. Benefits-Based Approach
3. Public and User Benefits
4. Reasonable Funding Targets (total)
5. Public Funds
6. State & Federal Cost Share

Finance Plan Principles

7. Benefit-Based Grant Programs
8. Use of Available Bond Funds
9. Allocation within CVP and SWP
10. Periodic Evaluations
11. Accounting System

ROD vs. Finance Plan Funding Targets

(average annual dollars)

- ROD \$1.26 bill.
- Finance Plan \$807 mill.
- Difference -\$451 mill. (-36%)

**Available and Additional Funding Needed to Meet
Targets**
(\$ in millions)

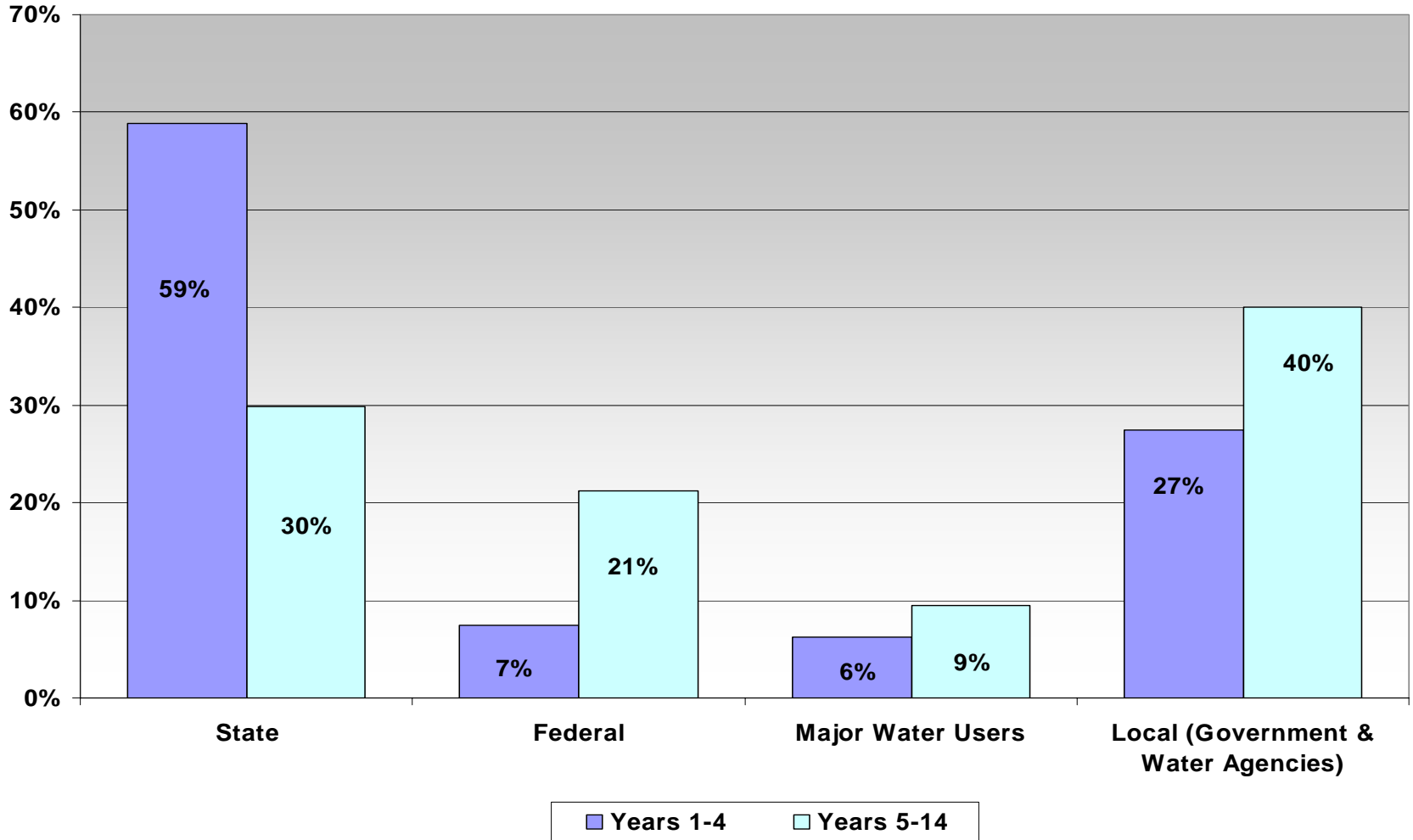
Program Element	Funding Target	Total Available Funding	Unmet Needs	Total Additional Funding
Ecosystem Restoration	\$1,500	\$372	\$1,128	\$1,128
Environmental Water Account	\$438	\$98	\$340	\$340
Water Use Efficiency	\$3,153	\$778	\$2,375	\$2,375
Water Transfers	\$6	\$6	\$0	\$0
Watershed	\$423	\$55	\$368	\$368
Water Quality	\$276	\$26	\$250	\$250
Levees	\$446	\$48	\$399	\$399
Storage	\$1,087	\$159	\$928	\$928
Conveyance	\$185	\$85	\$100	\$100
Science	\$437	\$48	\$390	\$390
Oversight & Coordination	\$121	\$74	\$47	\$47
TOTAL	\$8,073	\$1,748	\$6,325	\$6,325

10-Year Funding Allocations by Beneficiary

(\$ in millions)

Program Element	Funding Target	State	Federal	Water Users	Local Match	Total Funding
Ecosystem Restoration	\$1,500	\$542	\$408	\$400	\$150	\$1,500
Environmental Water Account	\$438	\$180	\$135	\$123		\$438
Water Use Efficiency	\$3,153	\$575	\$530		\$2,048	\$3,153
Water Transfers	\$6	\$6				\$6
Watershed	\$423	\$196	\$161		\$66	\$423
Water Quality	\$276	\$81	\$72	\$17	\$105	\$276
Levees	\$446	\$186	\$175	\$32	\$53	\$446
Storage	\$1,087	\$292	\$36	\$9	\$750	\$1,087
Conveyance	\$185	\$109	\$6	\$71		\$185
Science	\$437	\$167	\$151	\$108	\$11	\$437
Oversight & Coordination	\$121	\$75	\$46			\$121
TOTAL Dollars	\$8,073	\$2,408	\$1,722	\$760	\$3,183	\$8,073
TOTAL Percentage	100%	30%	21%	9%	40%	100%

Finance Plan Proposed vs. Historical Allocation



Schedule for New Funding

Year 6 (2005-06)

- Increased Federal funding based on new authorization
- CVP Water user contributions begin for IEP

Year 7 (2006-07)

- Water user contributions begin for ERP
- New State funding begins

Year 8 (2007-08)

- Water user contribution begins for EWA & Levees

Highlights of Comments Addressed

- 10-year plan; not 30 years
- Transparent bottom up process with strong public participation
- Reasonable funding targets
- Don't let feds off the hook
- Accept allocations within CVP and SWP
- Periodic evaluations to assess targets, benefits and beneficiaries
- ID Process to address changes to Finance Plan

Major Remaining Issues

- Water User Contributions
 - ERP, EWA, Levees, Science (IEP)
- Likelihood of Increased Federal Share
- Reliance on New State Funds by 2006-07

Additional Issues

- Not sufficient public process
- EWA funding targets too high
- EWA fee should be imposed sooner & not tied to 8500 pumping
- WUE targets and public funding too low
- Clarify Plan is a framework & recommendation to Federal & State agencies

Finance Plan Program Elements

1. Ecosystem Restoration
2. Environmental Water Account
3. Water Use Efficiency
4. Watershed
5. Drinking Water Quality
6. Levees
7. Storage
8. Conveyance
9. Science
10. Oversight and Coordination

Ecosystem Restoration Issues

- Certain water users question \$150m target
- No specific proposal for Non-CVP (\$25m) water user allocation
- Upstream water users strongly oppose contributing to ERP fee
- Water user assurances tied to new fee
- Federal share significantly higher than in recent years

Ecosystem Restoration

- Annual Funding Target: \$150m/yr
- Funding Strategy:
 - 30% state (\$45 m/yr)
 - 30% Federal (\$45 m/yr)
 - Beginning Year 6
 - 30% Water user (\$45 m/yr)
 - New fee beginning Year 7
 - CVPIA Restoration fund payments(\$20 m/yr)
 - new non-CVP water user fee (\$25 m/yr)
 - 10% local grant match (\$15 m/yr)

Ecosystem Restoration

- Water user share --recognizes benefits from ERP and impacts on the system; generally consistent with the ROD and the analysis in the Finance Options Report
- State /Federal share-- recognizes the expected large public benefits
- Local share -- based on average grant matching over past 4 years
- All other – viewed as incidental

Environmental Water Account Issues

- Water user share – 50% level questioned, delay in timing questioned
- Competing demands for the use of the Restoration Fund.
- Funding target questioned
- Competing demands for Prop 50 Chp 7(d)
- The federal share for EWA is higher than recent years

Environmental Water Account

- Funding Target

\$35m/yr – \$72 m/yr (\$438m total)

- Long-term purchases: \$50m (Yrs 6 &7)

- Reserve Fund: \$16m (Yrs 8 & 9)

- Science: \$4.5m/yr (\$8.5m Yrs 8 &12)

- Allocation

- State and Federal-- Reserve Fund and Long Term Purchases shared equally Yrs 6-9

- CVP, SWP, State, Fed--Annual expenses shared equally Yrs 8-14

Environmental Water Account

- 50%--Public (state & fed) receive ecosystem restoration benefits
- 50%--Delta export water users benefit from avoided water supply impacts due to curtailments in Delta pumping
- 50-50 cost share based on review and modeling of first few years of EWA

Water Use Efficiency Issues

- Concern that funding targets and public share too low
- Recycling allocation reduces state/fed share by 25% - corresponding increase to local share
- Proposed Federal cost-share for conservation and desal-- may be unrealistic, given past funding levels

Water Use Efficiency

Total: \$3.15 billion over 10yrs

Overall Allocation: State/Fed 35%, Local 65%

Water conservation: \$83 m/yr

Recycling: \$150 m/yr

Desalination: \$60 - \$80m/yr

Technical Assistance, Assurances, Science,
Oversight & Coordination: \$12m/yr

Water Use Efficiency

Water conservation: \$83 m/yr

Urban \$50 m/yr:

— 40% state/fed, 60% local

Agricultural \$33 m/yr:

— 60% state/fed, 40% local

Cost shares will vary based on project specific assessment of benefits

Water Use Efficiency

Targets & Allocation based on:

- Year 4 Comprehensive Evaluation
- Higher public share for ag conservation reflects higher public benefits expected –
WQ, Flow
- Higher local share for urban conservation reflects higher marginal value of urban water which generates higher benefits

Water Use Efficiency

Recycling: \$150 m/yr

- 25% state/fed, 75% local match
- Task Force adjusted target
- Allocation: Based on regional studies indicating recycling is locally cost effective
- 25% state/fed share assists in overcoming local institutional barriers

Water Use Efficiency

Desalination:

\$60 — \$80m/yr

- Research and Pilot Projects:
 - 50% st/fed, 50% local match
 - Larger public share than construction due to larger public benefits associated with research
- Construction:
 - 25% st/fed, 75% local match
 - Public share provided to overcome local barriers

Water Use Efficiency

Technical Assistance, Assurances, Science,
Oversight & Coordination: \$ 12m/yr

—100% State/Federal

- Benefits are broadly distributed across all water users and the general public

Watersheds Issues

- New Federal funding for the program may be difficult to receive based on past patterns

Watersheds

- Funding Target:
 - Ranges between \$40.7m and \$43.7m/yr (\$423m total for 10 years)
- Allocation proposed (on average)
 - 80% State / Federal (shared 50-50)
 - 15% Local project sponsors & partners
 - 5% Local government

Watersheds

- Average \$42 m/yr target -- based on assessment of critical program activities
- 80% -- Large st/fed share due to broad program benefits (ie ecosystem, water quality, local capacity building)
- 20%-- Increased local cost share to reflect project specific beneficiaries
- Cost shares will vary based on project specific assessment of benefits

Water Quality Issues

- Regional Planning
 - No available funding until Year 6 or 7 unless Prop 50 Chp 8 or other bond funding becomes available
- SJWQMP--Source Improvement
 - The BDA will participate in review of these activities and analysis of program benefits to develop a proposed cost allocation in 2005.
- Federal share uncertain

Water Quality

- Funding target -- \$276m over 10 yrs
 - Regional planning: \$13m
 - Source Improvement: \$ 207m
 - Treatment: \$34m
 - Science, Monitoring, & Assessment: \$16m
 - Program Management & Oversight: \$7m
- Potential Capital Projects
 - additional \$300m for 4 construction projects

Water Quality

- Regional planning: \$13m
 - State/fed 50%, local match 50%
 - Fed funding Yr 6, State funding Yr 7 unless Prop 50 Chp 8 available
- Source Improvement
 - \$207m over 10 years
 - Includes load and flow related actions

Water Quality

- Source Improvement: \$207m
 - Directed Actions: \$2m
 - Conveyance projects: \$41m
 - Franks Tract: \$30m
 - Feasibility—100% state
 - Phase I construction— 25% state/fed, 25% CVP, 50% SWP
 - Higher SWP share reflects expected export water quality benefits
 - Grant Program: \$164m
 - 50% state/fed, 50% local match (on average)
 - Allocation reflects large public benefits expected from projects & lower local cost effectiveness than other water mgmt projects

Water Quality

- Treatment Technology Demo Grants
 - \$34m over 10 years
 - 50% state/fed, 50% local match
 - Public share 50% due to broad public benefits of research projects

Levees Issues

- Comprehensive Program Evaluation & Water User Contributions
 - Evaluation is a near-term high priority
 - Export water user contribution tied to completion of Evaluation in Year 8
- Federal Participation
 - Concern that USACE process & schedule may delay projects & increase total cost

Levees

- Delta Levees Funding Target: \$446m
 - Levee Maintenance: \$13-17m/yr
 - Levee Improvements: \$12-30m/yr
 - All Other Components: \$1-5m/yr
- Comprehensive Program Evaluation
 - Next 3 years generally maintain status quo
 - Future funding targets and allocations preliminary pending Program Evaluation

Levees

- Levee Maintenance -- \$13-17m/yr
 - 75% State, 25% local
 - Primary benefits local flood control
 - No export water user contribution

Levees

- Levee Improvements -- \$12-30m/yr
 - Fed 65%, State 15%, Export water users 15%, Local 5%
 - Water user contribution begins Year 8 after Evaluation complete
 - Benefits: export water supply reliability, water quality, ecosystem, and flood control.

Levees

- All Other Components -- \$1-5m/yr
 - 100% state/federal
 - Includes CPE, Research, Studies, Oversight & Coordination

Levees

- Suisun Marsh Levees
 - Program costs and allocations will be included in future finance plan updates
 - Expected costs of \$63m over 10 years

Storage Issues

Surface Storage Planning

- Program funding needs being assessed
- If all investigations continue – additional funding will be needed
- Delay in surface storage planning possible if state funding not provided in near-term

Surface Storage construction

- Project funding will be based on benefits analysis. Expect primary beneficiaries to be water users

Storage

- Surface Storage Planning
 - Target \$82m
 - Available funding \$31m, Unmet need \$51m
 - Public funds proposed for completing studies
 - Federal funding available by Year 6
 - State funding delayed until Year 7; will likely cause delay in state–lead projects

Storage

- Groundwater Storage
 - \$1 billion total; approximately \$100m/yr
 - 25% state, 75% local match
 - Target based on ROD objective 500 TAF storage
 - Allocation based on expected distribution of public and local benefits on average
 - Cost share by project will vary depending on local cost effectiveness and public benefits

Conveyance Issues

- None remaining
- Project financing primarily CVP and SWP, and existing bond funds

Conveyance

- 10 separate projects
 - 3 construction projects, 7 planning studies
- Funding target: \$185 mill over 10 yrs
- Overall cost allocation
 - 59% state, 3% fed, 23% SWP, 15% CVP

Conveyance Construction Projects

1. Permanent Barrier/ 8500 cfs
 - Planning (\$13m) – continue SWP funding
 - Construction (\$87m) – rely on available State bond funds if Federal funding is not available
2. Interim S. Delta / Temp. Barriers (\$25m)
 - Allocated to SWP; status quo funding continued
3. DMC/ SWP Aqueduct Intertie (\$27m)
 - Allocated to South of Delta CVP water users

Conveyance

- Planning Studies (pg 93)
 - 7 Studies
 - Mixture of public & water user funding, considering existing authorized funding and expected benefits
 - Listed in Executive Summary
- Potential Capital Projects (pg 95)
 - Includes 5 of the studies moving to construction
 - Allocations developed based on benefits after planning completed

Science Issues

- IEP allocations

Allocation shifts from federal to CVP contribution. Reclamation and CVP water users oppose.

- Science Funding Targets

Concern targets are too high when total science budget for CALFED considered

Science

Two components

1. CBDA Science Program
2. Interagency Ecological Program (IEP)
 - Primarily SWP (32%) & Federal (54%)
 - No CVP; Minimal State and Local (14%)
 - Regulatory requirement

Science

- CBDA Science
 - Annual Funding Target: \$30m/yr
 - Allocation: 100% public funding (state/fed)
 - Broad benefits across all programs

Science

- IEP
 - Annual Funding Target \$14m
 - 3% State, 8% Fed, 37% CVP, 44% SWP, 7% Rec. fishing, 1% Local
 - Water user allocation emphasized due to regulatory requirement for water projects
 - IEP program assessment in March 2005

Oversight and Coordination Issues

- Dependent on State and Fed annual appropriations to fill \$5m/yr need; Bond funds not appropriate;
- EJ stakeholders concerned with level of funding allocated to EJ/Tribal activities

Oversight and Coordination

- Bay-Delta Authority primary role is oversight and coordination
 - For example: Reg. Coord, tracking, EJ, Tribal, Annual Report, Finance plng, BDA/BDPAC support
- Funding target: \$12 m/yr
- Available Funds: \$7.2m/yr State GF
- Unmet Needs: \$4.9 m/yr

Oversight and Coordination

- Allocation: 100% public funding
- 60% State, 40% Federal
- Federal Share limited by Authorization bill

Major Themes & Issues

The Finance Plan:

- Proposes new funding targets reduced by 35%
- Pushes the benefits-based approach; sharpens the criteria for public funds and increases contributions from other sources
- Provides a Framework to seek funding from all beneficiaries
- Lays a foundation for annual review of priorities as the Plan is put into action

10 Year Finance Plan

Next Steps

- Final Plan available January 2005
- State Legislative discussion/action in 2005
- Federal appropriations requests for FY 2006 and 2007