

**Agenda Item: 10-6**

**Meeting Dates: February 9 and 10, 2005**

## JOINT MEETING WITH BAY-DELTA PUBLIC ADVISORY COMMITTEE

### FINANCE PLAN IMPLEMENTATION – STATE, FEDERAL, AND USER SHARES

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**Summary:** California Bay-Delta Authority staff will provide an overview of the Finance Plan Implementation Strategy options regarding the State, Federal, and User shares for the CALFED Program.

**Recommended Action:** This is an information item only. No action will be taken.

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#### **Background**

The California Bay-Delta Authority (Authority) at its December meeting with the Bay-Delta Public Advisory Committee (BDPAC), approved the CALFED Finance Plan (Attachment 1) as a framework for guiding the financing of the CALFED Program for the next ten years. The Resolution adopted by the Authority stated, “the Director shall continue working with the State and Federal Administrations, implementing agencies, stakeholders, the Legislature and Congress on refining the details of the Plan and shall bring relevant issues back to the Authority and BDPAC for further consideration”.

Key issues that require further consideration at this time include:

- Federal Funding – Priorities for FY 2006 and 2007; and the President’s Proposed Budget for FY 2006 including the Federal CALFED Crosscut Budget
- State Funding – Options for the State share of the Program; and an update on the Governor’s Proposed 2005-06 Budget
- User Funding – Options for a new water user fee to support the Ecosystem Restoration Program (ERP)

On January 10, 2005 the Governor’s Proposed FY 2005-06 Budget was released. In the Governor’s Budget Summary (Attachment 2), the Administration summarizes the CALFED Finance Plan and the proposed allocations of funding for State, Federal, Water Users, and local shares. The Budget Summary also directs the Authority to develop a plan to finance the allocations to be incorporated in the Governor’s May Revision of the Budget.

On January 19, 2005, Authority staff held a Public Workshop to receive early input in a scoping session on options for both Ecosystem Restoration Program fees and State funding.

**Summary**

As implementation of the Finance Plan begins, attention is needed in all three areas of financing: State, Federal and Water User. Obtaining funding from all sources will require discussions with agencies and stakeholders. Existing funding – primarily from previous propositions – is currently being used to support program activities. This funding is expected to be exhausted within one to two years. Therefore, as noted in the framework in the Finance Plan, the need to generate new revenue sources is critical. The Authority and BDPAC recognized when approving the Finance Plan that it would be a significant challenge to seek additional and new funding sources during a time of fiscal constraint but accepted the challenge in order to support the funding needs of the CALFED Program. At the February meeting, Authority staff will provide a summary of the funding status and funding options for the Federal, State and User shares of the Program. Materials will cover new annual revenue sources, but specific focus will be given to the next two years (Years 6 and 7) in order to anticipate funding gaps and set priorities. The tables below summarize the available funding and additional funding by program element for the next two years.

CALFED Bay-Delta Program Year 6 Available Funding and Unmet Needs (\$ in millions)														
Program Element	Funding Targets	Available Funding						Unmet Needs	Additional Funding for Unmet Needs					
		Water User					Total Available		State	Federal	Water User			Total Additional
		State	CVP	Non-CVP	Local Match						CVP	Non-CVP	Local Match	
Ecosystem Restoration	\$150.0	\$26.2	\$20.0		\$3.4	\$49.6	\$100.4		\$45.0			\$5.9	\$50.9	
Environmental Water Account	\$72.1	\$45.1				\$45.1	\$27.0		\$27.0				\$27.0	
Water Use Efficiency	\$305.3	\$59.8			\$103.0	\$162.7	\$142.6		\$49.8			\$92.9	\$142.7	
Water Transfers	\$0.6	\$0.6				\$0.6	\$0.0						\$0.0	
Watershed	\$43.7	\$12.0			\$1.8	\$13.8	\$29.9		\$18.6			\$3.7	\$22.3	
Water Quality	\$28.7	\$3.8				\$3.8	\$24.9	\$2.7	\$11.7		\$1.0	\$6.4	\$21.7	
Levees	\$35.4	\$18.4			\$3.4	\$21.8	\$13.6		\$12.8		\$0.3	\$0.5	\$13.6	
Storage	\$137.7	\$26.6			\$46.8	\$73.4	\$64.3	\$0.2	\$19.9	\$8.7		\$0.3	\$29.0	
Conveyance	\$43.9	\$29.6		\$0.1		\$29.7	\$14.2	\$1.2	\$0.3	\$0.5	\$12.2		\$14.2	
Science	\$44.0	\$7.4				\$7.4	\$36.6	\$7.9	\$16.1	\$5.2	\$6.2	\$1.1	\$36.5	
Oversight & Coordination	\$12.1	\$7.2				\$7.2	\$4.9		\$4.9				\$4.9	
<b>Total</b>	<b>\$873.4</b>	<b>\$236.6</b>	<b>\$20.0</b>	<b>\$0.1</b>	<b>\$158.4</b>	<b>\$415.1</b>	<b>\$458.3</b>	<b>\$11.9</b>	<b>\$205.9</b>	<b>\$14.4</b>	<b>\$19.7</b>	<b>\$110.8</b>	<b>\$362.8</b>	

CALFED Bay-Delta Program Year 7 Available Funding and Unmet Needs (\$ in millions)														
Program Element	Funding Targets	Available Funding						Unmet Needs	Additional Funding for Unmet Needs					
		Water User					Total Available		State	Federal	Water User			Total Additional
		State	CVP	Non-CVP	Local Match						CVP	Non-CVP	Local Match	
Ecosystem Restoration	\$150.0	\$11.0	\$20.0		\$1.4	\$32.4	\$117.6	\$57.3	\$45.0		\$25.0	\$16.6	\$143.8	
Environmental Water Account	\$52.1	\$9.5				\$9.5	\$42.6	\$16.0	\$26.6				\$42.6	
Water Use Efficiency	\$325.3	\$51.9			\$88.0	\$139.8	\$185.5	\$10.4	\$52.3			\$122.9	\$185.5	
Water Transfers	\$0.6	\$0.6				\$0.6	\$0.0						\$0.0	
Watershed	\$41.1	\$0.1				\$0.1	\$41.0	\$23.8	\$17.3			\$7.5	\$48.6	
Water Quality	\$29.6	\$0.9				\$0.9	\$28.7	\$6.6	\$10.6	\$2.9	\$5.9	\$14.8	\$40.7	
Levees	\$35.0	\$1.1				\$1.1	\$34.0	\$17.0	\$12.8		\$0.3	\$3.9	\$34.0	
Storage	\$121.7	\$1.7				\$1.7	\$120.0	\$44.3	\$9.4			\$109.2	\$162.9	
Conveyance	\$50.7	\$27.3		\$0.1		\$27.4	\$23.3	\$15.3	\$0.1	\$0.5	\$7.4		\$23.3	
Science	\$44.0					\$0.0	\$44.0	\$15.4	\$16.1	\$5.2	\$6.2	\$1.1	\$44.0	
Oversight & Coordination	\$12.1	\$7.2				\$7.2	\$4.9	\$0.1	\$4.8				\$4.9	
<b>Total</b>	<b>\$862.1</b>	<b>\$111.1</b>	<b>\$20.0</b>	<b>\$0.1</b>	<b>\$89.4</b>	<b>\$220.6</b>	<b>\$641.5</b>	<b>\$206.2</b>	<b>\$194.9</b>	<b>\$8.6</b>	<b>\$44.7</b>	<b>\$276.0</b>	<b>\$730.3</b>	

### **Federal Funding**

The Finance Plan proposes an overall allocation to the Federal government (taxpayers) of 21 percent for the CALFED Program based on an assessment of expected benefits. The Finance Plan-proposed Federal allocation by program element for the next two Federal fiscal years (2006 and 2007) is summarized in Attachment 3. The Central Valley Project (CVP) share is also included because these dollars are included in the Federal budget and annual Federal funding requests for CALFED. The total proposed amount (Federal and CVP) for FY 2006 is \$220 million and for FY 2007 is \$204 million. These amounts represent a large increase over past levels of funding. Federal funding in prior years has ranged between \$50 to \$60 million (including approximately \$20 million from the Central Valley Project Improvement Act Restoration Fund). Information summarizing the President's FY 2006 Proposed Budget for CALFED is not available at the time of this mailing but will be provided at the meeting.

Given the increase in proposed Federal funding in the Finance Plan; a transition strategy is proposed. In addition to seeking increases in new Federal appropriations for CALFED projects; it is important to work with Federal agencies to identify existing Federal funding sources that could be directed to CALFED priorities (Category B) but still meet Federal priorities and mandates. The State Administration has indicated support for a \$100 million proposal for new Federal funding for each of the next two years. Authority staff will provide a proposed allocation for the \$100 million Federal funding by program element at the February meeting. In addition, a directed effort should be initiated to identify the remainder of the funding needs through existing Category B programs.

### **State Funding**

The Finance Plan proposes an overall allocation to the State government (taxpayers) of 30 percent for the CALFED Program based on an assessment of expected benefits. This allocation equals roughly \$165 million annually. The available State funding, reflected in the tables on the previous page, shows that additional State funding is needed in Year 7 (FY 2006-07). By FY 2006-07, based on the proposed expenditure plans for Propositions 50, 204 and 13, approximately \$200 million will be needed for the State share of the CALFED Program.

At the December 2004 Authority and BDPAC meeting, Authority staff was directed to identify options for State funding. Authority staff will provide in a later mailing a description and brief analysis of several State funding options including annual General Fund appropriations; new State General Obligation Bonds – repaid by the General Fund, and possible new revenue sources.

## **User Funding**

The Finance Plan proposes an overall allocation of 9 percent to water users for specific program elements based on an assessment of expected benefits. This allocation includes a proposal for new water user contributions for four program elements: Ecosystem Restoration, Environmental Water Account, Levees, and Science/Interagency Ecological Program. Of the four program elements, only the ERP water user contribution will require new State legislation. The Finance Plan proposes establishment of a new ERP water user fee in 2005 and the Governor's Proposed Budget indicates that a proposal will be included in the May Revision of the Governor's Budget. Therefore, Authority staff has developed fee options for discussion at the February meeting. At this time, three options are summarized in Attachment 3:

- Fees based on water diversions
- Fees based on the reservoir storage capacity
- Fees based on both of the above

## **List of Attachments**

Attachment 1 – Finance Plan (Bound Separately and can also be found at [http://calwater.ca.gov/FinancePlanning/CBDA\\_Final\\_Finance\\_Plan\\_1-23-05.pdf](http://calwater.ca.gov/FinancePlanning/CBDA_Final_Finance_Plan_1-23-05.pdf) )

Attachment 2 – Governor's FY 2005-06 Budget Summary – California Bay-Delta Authority

Attachment 3 – Ecosystem Restoration Program Water User Fee Options

Attachment 4 – Letter from Kirk Rodgers to Patrick Wright dated January 25, 2005

Attachment 5 – Letter from San Francisco area business interests to Governor Schwarzenegger

Attachment 6 – Letter from Gary Hunt to Senator Michael Machado dated January 12, 2005

Attachment 7 – Letter from Southern California Water Committee Inc. to Gary Hunt dated January 4, 2005

Attachment 8 – Letter from State Water Resources Control Board to Patrick Wright dated December 22, 2004

Attachment 9 -- Letter from Governor Arnold Schwarzenegger to The Honorable Joshua Bolten, Director, Office of Management and Budget, dated December 6, 2004

Attachment 10 – Water Users' Technical Comments CALFED Finance Plan, dated December 8, 2004

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**ATTACHMENT 1**

## **FINANCE PLAN**

*Can be found bound separately in Packet or on the Internet at*  
[http://calwater.ca.gov/FinancePlanning/CBDA\\_Final\\_Finance\\_Plan\\_1-23-05.pdf](http://calwater.ca.gov/FinancePlanning/CBDA_Final_Finance_Plan_1-23-05.pdf) .

**Excerpt from Governor's FY 2005-06 Budget**

***Resources***

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**California Bay-Delta Authority**

The CALFED Bay-Delta Program is an unprecedented effort by the State and the federal government to coordinate the management of water, California's most precious natural resource, and restore the ecosystem. The Governor's Budget includes \$150.3 million for the State's share of the CALFED Program (\$12.1 million General Fund, \$125.1 million bond funds, and \$13.1 million other funds). This represents an overall reduction in program funding of \$258 million in bond and federal funds. The Bay-Delta Authority will have 60.8 positions to coordinate the CALFED program (no change from 2004-05).

Program objectives are set forth in a 30-year comprehensive plan to address the ecosystem health and water supply reliability problems in the Bay-Delta. The plan identifies projects and strategies to address 11 major program elements, including ecosystem restoration, drinking water quality, levee system

integrity, watershed management, water storage, water transfers, water use efficiency, delta water conveyance, a strong science element, water management, and an environmental water account for water purchases.

The California Bay-Delta Authority coordinates 24 State and federal agencies involved in implementing a long-term comprehensive plan.

### Program Financing

Implementation of the CALFED Program began in 2000 with the signing of the CALFED Record of Decision (ROD). Funding over the first four years has been primarily from the General Fund and State bond funds. Federal authorization of the CALFED Program was signed in 2004, and is expected to increase federal funding for the program. Since the ROD was signed, approximately \$2.7 billion has been invested in water supply, water quality, and ecosystem restoration programs and projects in the 51 counties that depend on the Bay-Delta system for all or part of their water needs. Of the \$2.7 billion, approximately 60 percent, or \$1.6 billion, has been contributed by the State. This is almost twice the share anticipated for the State in the ROD.

The California Bay-Delta Authority has developed a Finance Plan as a framework to guide the financing of the CALFED Bay-Delta Program through 2014. This plan reduces dependency on the General Fund and calls for new revenue sources to support the program. In summary, the plan:

- Establishes a set of principles to guide future funding decisions.
- Identifies program priorities, funding needs, and beneficiaries across all CALFED activities.
- Reduces the average annual cost of the program from \$1.3 billion to \$807 million per year.
- Proposes cost sharing for all program activities.
- Reduces the State's overall contribution from 59 percent over the last four years to 30 percent over the next ten years.
- Increases the federal contribution from 7 percent over the last four years to 21 percent over the next ten years. The recent federal authorization of the CALFED Program is a significant step towards this goal.
- Increases water user and local contributions from 33 percent over the last four years to 49 percent over the next ten years and identifies new potential water user fees for specific programs.

Figure RES-02 summarizes the financing plan highlighted above.

Consistent with the premise of the "beneficiary pays" identified in the CALFED Record of Decision, the Finance Plan identifies who will benefit from the programs and projects of the CALFED plan, and who should pay for them. State and federal funds are recommended only for projects that provide broad public benefits. Water users should pay for projects and programs that result in specific benefits to them. Local governments and water districts will be expected to provide a local match for projects with local benefits.

Figure RES-02

**CALFED Bay-Delta Program  
10-Year Funding Allocations by Beneficiary**  
(Dollars in millions)

<b>Program Element</b>	<b>State</b>	<b>Federal</b>	<b>Water Users</b>	<b>Local Match</b>	<b>Total Funding</b>
Ecosystem Restoration	\$542	\$408	\$400	\$150	\$1,500
Environmental Water Account	180	135	123		438
Water Use Efficiency	575	530		2,048	3,153
Water Transfers	6				6
Watershed	196	161		66	423
Water Quality	81	72	17	108	276
Levees	188	175	32	53	448
Storage	292	38	9	750	1,087
Conveyance	109	6	71		186
Science	167	151	109	10	437
Oversight & Coordination	74	47			121
<b>TOTAL Dollars</b>	<b>\$2,408</b>	<b>\$1,721</b>	<b>\$761</b>	<b>\$3,183</b>	<b>\$8,073</b>
<b>TOTAL Percentage</b>	<b>30%</b>	<b>21%</b>	<b>9%</b>	<b>40%</b>	<b>100%</b>

The Bay-Delta Authority will work with water users, local water agencies, environmental advocates, and other stakeholders to develop a plan for how the non-State and federal share will be financed. The plan will be incorporated in the Governor's May Revision.

## **CALFED Bay-Delta Program Ecosystem Restoration Program --Water User Fee Options Working Draft**

**Background:** The Finance Plan established a \$150 million annual funding target for ERP and put forward the following cost allocation:

- State 30%
- Federal 30%
- Water User 30%  
Includes CVP Restoration Fund payments (\$20mill/yr) and new water user fee from non-CVP users (\$25 mill/yr)
- Local Grant Match 10%

The basis for this cost allocation primarily comes from two sources. First, it is consistent with the percentage allocation of ERP costs discussed in the Record of Decision. Second, of the various ERP cost allocations considered during the development of the 10-Year Finance Plan, this one is closest to the proportional benefits-based cost allocation presented in the Draft Finance Options Report. It is also worth noting that an independent assessment of ERP costs and benefits to water users done by Metropolitan Water District and reviewed by other water user stakeholders also concluded that an allocation of 20-30% of ERP costs to water users would be consistent with expected water user benefits.

The water user share of \$45 million per year will be met using revenue from the CVP RF (\$20 million) and a new water user fee (\$25 million). Water users already contributing to the CVP RF would not be subject to the new fee. It would only be assessed on water users that do not currently pay into the CVP RF.

**Fee Options:** This paper presents several fee structures to fund the water user share of the ERP costs. Quantitative information for three fee options is presented

1. Fees based on water diversions
2. Fees based on reservoir storage capacity
3. Fees based on both water diversions and reservoir storage capacity

Each fee option is presented as an example of how such fees could be structured. However, the dollar amounts may change following a more in-depth review by Authority staff, CALFED agencies, and stakeholders.

Each fee alternative is summarized with respect to:

- Expected overall revenue
- Fee levels by water user class
- Allocation of cost by water user class
- Potential rate impact by water user class

The pros and cons of each fee alternative is summarized with regard to:

- Adherence to benefits-based approach
- Administrative feasibility and cost
- Ability to improve resource efficiency
- Social equity

**Starting Assumptions:** The annual revenue target for water users is \$45 million. It is assumed that revenue from the CVP RF will cover \$20 million of this. New fees paid by water users not already paying into the CVP RF will need to generate an additional \$25 million annually. Water users potentially subject to new fees include SWP contractors, CVP exchange contractors, CVP settlement contractors, and non-project water users (which includes non-CVP hydropower generators for some fee options).

**Water User Classes:** The analysis of fee options differentiates water users by type of use (agricultural, urban, hydropower), diversion point (Sacramento Valley, In-Delta, Delta Export, San Joaquin Valley, and Upstream of Delta), and project (SWP, CVP, Non Project). ERP fee alternatives may include all users potentially subject to new fees or may exclude some of these users from the fee structure for one reason or another.

**Data Sources:** Table 1 lists average annual diversions by water user class. The average reflects the frequency of dry, normal, and wet years in the hydrologic record. This data was used to compute the diversion fee level and revenue for each diversion fee option. Diversion data come from the Department of Water Resources. Table 2 lists in aggregate the storage capacities for the 33 largest reservoirs impounding waters that drain through the Delta. A table attached to the end of this paper provides the capacities for each reservoir included in the analysis. These capacities are used to compute storage-based fees. The data come from Department of Water Resources.

### ***Fees Based on Water Diversions***

Four variations of a diversion-based fee were developed:

1. Uniform per acre-foot diversion fee.
2. Differentiated by export versus non export water users
3. Differentiated by urban versus agricultural water users
4. Differentiated by export versus non-export and urban versus agricultural water users.

The fee model used the following assumptions and constraints to generate the fees and revenue estimates discussed below.

#### ***Revenue Neutrality***

- Each variation of a diversion fee is designed to generate \$25 million of fee revenue.
- Revenue estimates do not account for potential demand responses to higher diversion fee costs. These potential responses are addressed in the discussion of diversion fees.

#### *Fee Multipliers*

- For variations that differentiate urban and agricultural fees, the urban fee is set to twice the agricultural fee. This follows the precedent set by CVP RF fees.
- For variations that differentiate export and non-export water uses, the fee on export uses is twice the fee on non-export uses. This assumption was a starting estimate that will require further analysis.
- For variations that differentiate by both type of use and export, the two fee multipliers determine the fee for each user class. The lowest fee is paid by non-export agricultural diversions. The fee for export agricultural diversions is twice this base amount, as is the fee for non-export urban use. The fee for export urban use is four times the base amount.

#### *Revenue Collection*

The percent of diversions for which it is assumed fees can be collected is as follows:

- 100% of CVP and SWP diversions
- 80% of non-project urban diversions
- 60% of non-project agricultural diversions

These assumptions were adopted because it is unlikely that the state will be able to successfully levy and collect fees on all diversions. Small agricultural diversions are likely to present the greatest collection challenge, followed by small urban diversions (including self-supplied residences and businesses).

#### *CVP RF*

The analysis assumes that CVP RF contributions to ERP average \$20 million per year. It is important to keep in mind, however, that CVP RF revenues fluctuate from year-to-year and the Bureau of Reclamation has discretion with regard to the amount of CVP RF dedicated to ERP purposes.

#### *Diversion-Based Fee Estimates*

Table 1 summarizes the diversion fee (\$/AF of diversion) for each variation and the fees paid by each water user class. Fees for agricultural diversions depend on type of diversion. Fees for non-export diversions range between \$1.32/AF and \$2.12/AF. Fees for export diversions range between \$1.81/AF and \$3.24/AF. Fees for urban diversions also depend on type of diversion. For non-export urban diversions, fees range between

\$1.62/AF and \$3.62/AF, while fees for export urban diversions range between \$2.12/AF and \$5.29/AF.

Figures 1 through 4 show the average impact on rates by major water user class. Baseline rates reflect the cost at the diversion point or for CVP and SWP project water and do not include the costs for treatment and distribution.<sup>1</sup> Tables with the detail supporting these figures are provided at the end of this paper.

### *Discussion of Diversion-Based Fees*

- *Adherence to Benefits-Based Approach*

The cost share (30%) proposed in the Finance Plan recognizes the significant benefits expected to accrue to the water users from the ERP as well as the impacts these diversions have on the ecosystem. The benefits primarily take the form of reduced risk of future ESA-related regulatory actions that could affect the timing and amount of diversion from the Delta and its tributaries. Risk exposure is partly a function of the amount of diversion, the point of diversion, and water rights seniority.

Risk exposure generally increases with the amount of diversion. Large diverters are more likely to be closely regulated and impacted by those regulations than small diverters. A diversion fee, which allocates ERP costs in proportion to the amount diverted, would be generally consistent with a benefits-based approach to cost allocation among water users.

A second question is whether a diversion fee should be differentiated across water users. A uniform fee would be appropriate if the amount of benefit or impact per unit of diversion did not vary much across water users. This would be true if all water users were equally exposed to future ESA-related regulatory actions, which is unlikely to be the case. Junior water right holders face more risk than senior water right holders. This suggests that a disproportionate share of ERP water user benefits will accrue to water users with junior water rights. A diversion fee roughly differentiated by water rights seniority would more closely adhere to a benefits-based approach than a uniform diversion fee. Additionally, water users diverting out of the Delta may be more closely regulated than those diverting above the Delta.

Of the diversion fee options considered, Options 2 and 4, which differentiate fees between Delta exporters and non-exporters, would most closely correlate the fee to differences in benefits due to water rights seniority and point of diversion. Water rights held by CVP and SWP are generally junior to rights held by in-basin and upstream diverters. There are exceptions to this, but in general this is the case. Historically, Delta exporters have also faced the greatest amount of regulatory risk.

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<sup>1</sup> Non-project agricultural diversions were assumed to average \$15/AF in the Sacramento Valley and Delta and \$25/AF in the San Joaquin Valley. Non-project urban diversions were assumed to average \$150/AF for up-stream (primarily EBMUD and SFPUC) diversions and \$50/AF for Delta diversions.

Options 2 and 4 apply a fee multiple of 2 to CVP and SWP export diversions. While this accounts for the potential difference in benefits received, the multiple was an estimate and would require further evaluation. The Authority currently does not have sufficient information to quantitatively determine the multiple.

- *Administrative feasibility and cost*

Administration and collection of diversion fees from the CVP and SWP would be straightforward and could be accomplished within the existing revenue collection systems for the two projects. For the CVP a new diversion fee would apply to exchange and settlement contract water only. CVP diversions subject to the CVP RF would not be assessed a new fee.

Collecting fees from non-project diverters would be more challenging. While most, if not all, medium and large agricultural and urban districts subject to fees are known to the state through their SWRCB water rights filings and measure their diversions, there are hundreds, if not thousands, of small, mostly agricultural, diverters that the state would need to collect from. Many of these small diversions may not be accurately measured. Administrative systems for collecting fees from these diverters would need to be developed. The SWRCB's recently adopted water rights fee program could be used to identify smaller water right holders subject to a diversion fee. However, this program does not measure actual diversions, so there would still be the measurement problem to address.<sup>2</sup>

The fee levels and revenue estimates in Table 1 assume the state would not be able to collect fees on all small diversions. They assume the state would successfully collect fees from 80% of non-project urban diversions and 60% of non-project agricultural diversions.

- *Ability to Improve Resource Efficiency*

It has long been argued that water costs in California understate the full social cost of water development and that this results in inefficient use of developed water resources. The overall level of consumption is inefficient because the benefits derived at the margin of use are less than the costs to provide water for these uses. If this is true society could more productively employ some of its resources dedicated to water development in alternative uses. A diversion fee would increase the marginal cost of water to users. If the fee properly reflected unaccounted for costs of water development, such as costs to the environment, it would help to eliminate inefficient use of the resource. In short,

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<sup>2</sup> Implementation of BDA's Staff Proposal on Appropriate Agricultural and Urban Water Use Measurement, adopted by BDA in April 2004, would address some of these measurement problems. Alternatively, agricultural fees for diversions that cannot be measured could be based on estimates of crop applied water or crop consumptive use of water. BDA staff is currently exploring the feasibility of this latter approach.

diversion fees have the potential to internalize costs of water development that historically have not been incorporated into water prices.

Other types of fees may be less effective at doing this. For example, a connection fee would not be reflected in water prices and would be largely divorced from decisions about consumption, at least at the margin. Once the connection fee is paid the fee is a sunk cost. A user's marginal cost of water is thereafter unaffected. Likewise, a fee based on the purpose and distribution of ERP projects would not affect water use decisions unless these fees were transmitted through diversion prices. If the fees were paid in lump sums, they would be largely irrelevant to consumption decisions at the margin.

However, there is no guarantee that a diversion fee would improve resource efficiency. Diversion fees are equally capable of worsening resource efficiency if they are poorly designed. Fees set too high could result in under-consumption of the resource, which, from an economic standpoint, is just as inefficient as over-consumption. For example, higher costs for surface water could cause some water users to increase groundwater pumping, which could exacerbate groundwater overdraft in some regions.<sup>3</sup>

- *Revenue Generation*

Fees prompting a substitution response will fall short of the annual revenue target of \$25 million. The extent of the shortfall will depend on the demand elasticities for water in different uses. Under normal conditions consumers demand more of a good at lower prices and less at higher prices. The elasticity of demand measures the strength of this response. Most empirical studies have found the demand for water to be very inelastic – meaning higher prices prompt some substitution response, but not much. Long-run estimates of demand elasticity for urban water uses generally range between -0.1 and -0.2, which means a 10% increase in the cost of urban water use would decrease demand by one to two percent. Likewise, estimates of demand elasticity for agricultural uses are also low. The median estimate of elasticity from a review of 53 irrigation demand studies was -0.22. In aggregate, we estimate the fees presented here would increase diversion costs by roughly 3%. With a long-run demand elasticity of -0.2, the hypothesized fees would decrease demand by 0.6%, in which case fee revenue would total \$24.85 million rather than \$25 million. This estimate probably understates the response that should be expected. This is because demand elasticities reflect changes in the use of water and not changes in the source of water. If users are able to substitute groundwater for surface water at low cost, the impact of higher diversion costs could be greater than suggested by empirical estimates of demand elasticity.

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<sup>3</sup> If the fee results in the marginal cost of surface water exceeding the marginal cost of groundwater, users will substitute groundwater for surface water. Substitution will continue until groundwater costs rise to the level of surface water costs. Thus users will switch to groundwater until groundwater levels drop enough drive up pumping costs to the level of surface water costs.

- *Social Equity*

Looking at the percentage change in water diversion cost, agricultural water users would be more sharply affected than urban users under any of the four diversion fee options. Figure 2 shows that diversion costs for agricultural users would increase by five to twenty percent, while Figure 4 shows an increase for urban users of one to three percent. Option 4 does the best job of reducing the differential in rate impacts between agricultural and urban users, though the differential, in percentage terms, remains significant.

These differences do not necessarily point to an inequity. Primarily, they reflect the fact that diversion costs for urban users are much higher to begin with. In dollar amounts, urban users pay the same or higher fees as their agricultural counterparts under all four fee options. The differences do suggest, however, that adjustment costs would be higher in the agricultural sector. Increases in diversion costs of five to twenty percent could affect farming profits and the viability of some farming operations. Ultimately, the higher costs would impact agricultural land values to some degree and cause resources to shift out of marginal farming operations.<sup>4</sup> Urban users would also face higher costs and marginal uses of the resource would also be affected. However, these impacts would be spread over many more users. In the agricultural sector, impacts will be concentrated. In the urban sector they will be diffuse.

Fees that do not follow the distribution of benefits would be more inequitable than those that do. As discussed previously, fees that differentiate between export and non-export users may better reflect the distribution of expected ERP benefits. This suggests that from the standpoint of equity Options 2 and 4 should be preferred to Options 1 and 3.

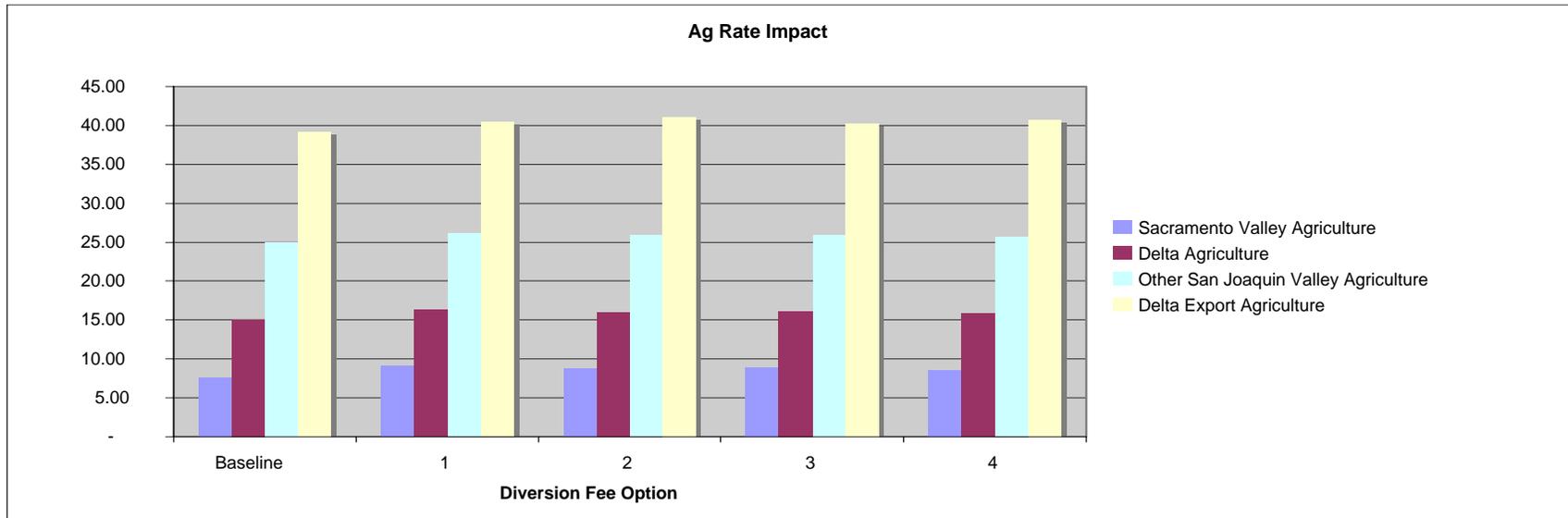
A final consideration with regard to equity is whether the fees proposed under the four options are broadly consistent with fees paid by CVP contractors into the CVP RF. CVP RF charges under CVPIA 3407(d) are approximately \$8/AF for agricultural contractors and \$16/AF for M&I contractors. The FY2005 revenue forecast from these fees is about \$46 million. If \$20 million of these revenues contribute to the ERP, then agricultural and M&I CVP contractors are paying roughly \$3.48/AF and \$6.96/AF, respectively, to support ERP projects. The total and proportional Restoration Fund rates exceed any of the rates under the four diversion fee options. The rates proposed for urban and agricultural exports under Option 4 are about 75% of the rates CVP contractors would pay to support ERP.

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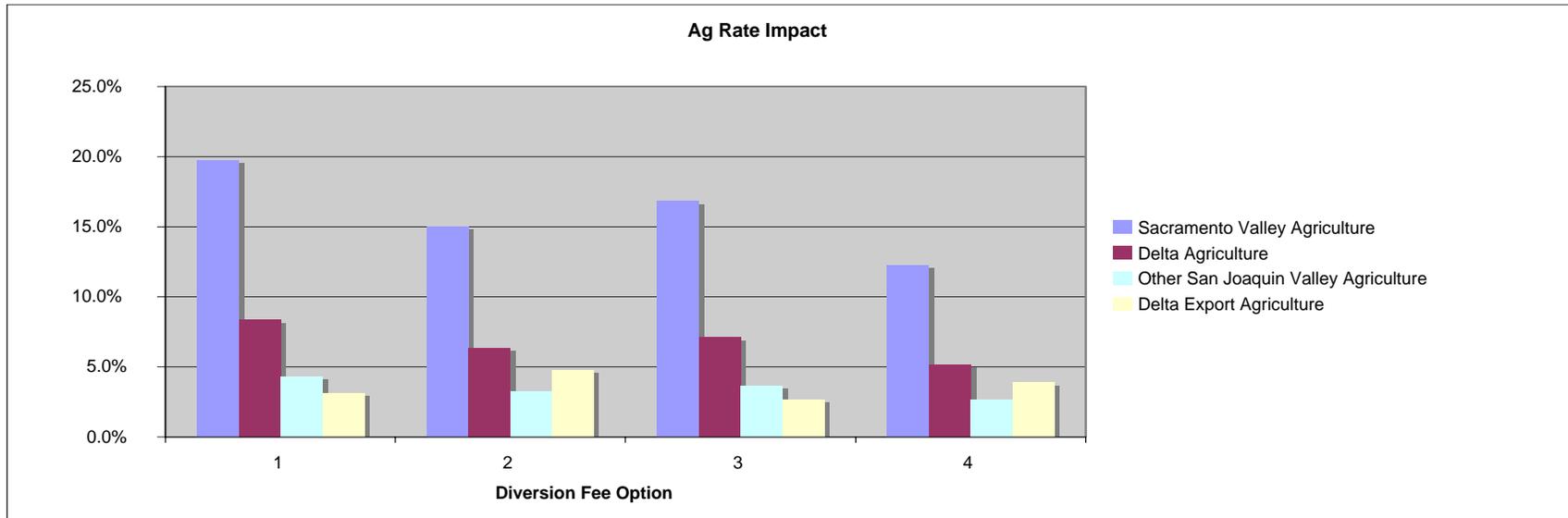
<sup>4</sup> From an economic efficiency standpoint, this is exactly what needs to happen – in both the agricultural and urban sectors -- in order to eliminate inefficient consumption of the resource at the margin. Protecting resource users from these impacts would perpetuate these inefficiencies.

Table 1. ERP Water User Fee Options Based on Diversions

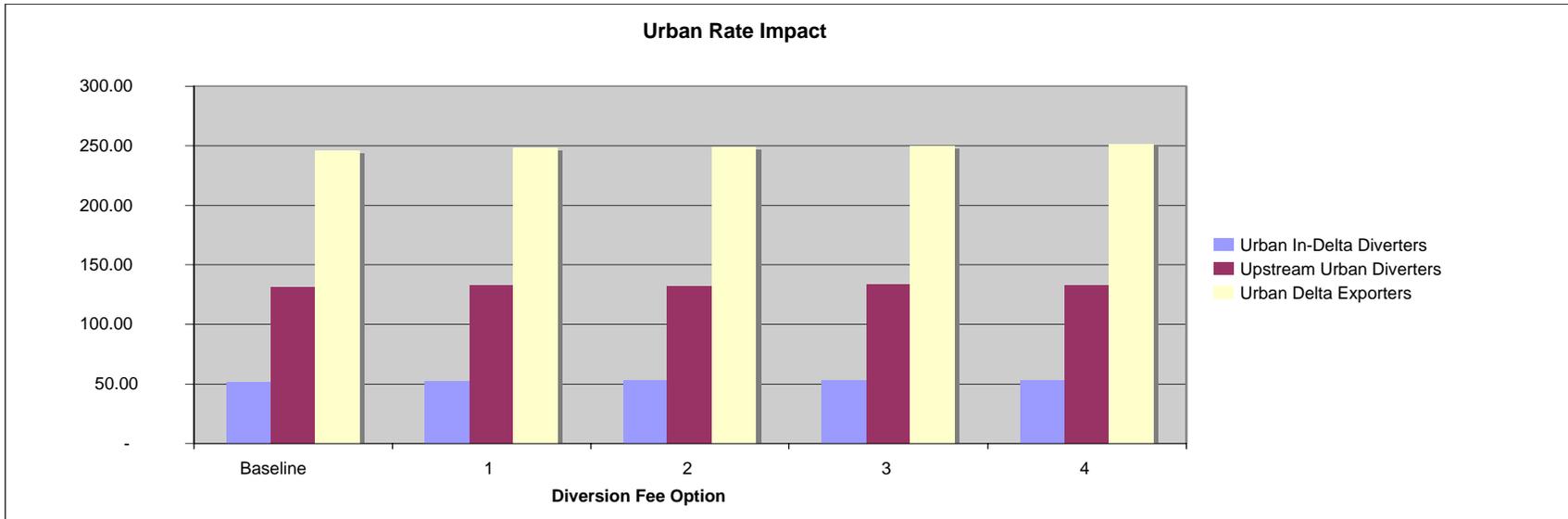
Water Users in Beneficiary Group	Estimated TAF Diversion by Water User to Estimate Fee Revenue	Diversion Fee Option (\$/AF)				Revenue by Diversion Fee Option (\$1,000)			
		1	2	3	4	1	2	3	4
<b>Sacramento Valley Agriculture</b>	<b>5,159</b>	<b>2.12</b>	<b>1.62</b>	<b>1.81</b>	<b>1.32</b>	<b>7,748</b>	<b>5,917</b>	<b>6,604</b>	<b>4,829</b>
DWR SWP Sac V	16					35	27	30	22
SWP Ag settlement contracts	1,005					2,133	1,629	1,818	1,329
CVP Ag settlement contracts Sac	1,424					3,022	2,308	2,576	1,883
Ag Nonproject *	2,009					2,558	1,954	2,181	1,595
CVP Ag contracts	704	CVP RF	CVP RF	CVP RF	CVP RF	-	-	-	-
<b>Delta Agriculture</b>	<b>1,219</b>	<b>2.12</b>	<b>1.62</b>	<b>1.81</b>	<b>1.32</b>	<b>1,527</b>	<b>1,166</b>	<b>1,302</b>	<b>952</b>
Ag Nonproject Sac V Delta *	490					624	476	532	389
Ag Nonproject SJV Delta *	709					903	690	770	563
CVP Ag contracts	20	CVP RF	CVP RF	CVP RF	CVP RF	-	-	-	-
<b>Delta Export Agriculture</b>	<b>3,805</b>	<b>2.12</b>	<b>3.24</b>	<b>1.81</b>	<b>2.65</b>	<b>4,686</b>	<b>7,157</b>	<b>3,994</b>	<b>5,841</b>
SWP Ag Project	1,331					2,824	4,313	2,407	3,520
CVP Ag exchange contracts	720					1,527	2,333	1,302	1,904
CVP Ag settlement contracts SJV	158					334	511	285	417
CVP Ag contracts	1,597	CVP RF	CVP RF	CVP RF	CVP RF	-	-	-	-
<b>Other San Joaquin Valley Agriculture</b>	<b>6,258</b>	<b>2.12</b>	<b>1.62</b>	<b>1.81</b>	<b>1.32</b>	<b>6,713</b>	<b>5,127</b>	<b>5,722</b>	<b>4,184</b>
Ag Nonproject *	5,272					6,713	5,127	5,722	4,184
CVP Ag contracts	986	CVP RF	CVP RF	CVP RF	CVP RF	-	-	-	-
<b>Upstream Urban Diverters</b>	<b>824</b>	<b>2.12</b>	<b>1.62</b>	<b>3.62</b>	<b>2.65</b>	<b>1,154</b>	<b>881</b>	<b>1,968</b>	<b>1,439</b>
CVP M&I settlement contracts Sac	30					65	49	110	80
M&I Nonproject **	642					1,090	832	1,858	1,358
CVP M&I contract Sac	152	CVP RF	CVP RF	CVP RF	CVP RF	-	-	-	-
CVP M&I contract Friant	44	CVP RF	CVP RF	CVP RF	CVP RF	-	-	-	-
<b>Urban Delta Exporters</b>	<b>1,519</b>	<b>2.12</b>	<b>3.24</b>	<b>3.62</b>	<b>5.29</b>	<b>3,050</b>	<b>4,658</b>	<b>5,200</b>	<b>7,603</b>
SWP M&I Project	1,362					2,891	4,415	4,929	7,207
CVP M&I exchange contracts	71					151	231	257	376
CVP M&I settlement contracts SJV	4					8	12	14	20
CVP M&I contracts	82	CVP RF	CVP RF	CVP RF	CVP RF	-	-	-	-
<b>Urban In-Delta Diverters</b>	<b>191</b>	<b>2.12</b>	<b>1.62</b>	<b>3.62</b>	<b>2.65</b>	<b>123</b>	<b>94</b>	<b>210</b>	<b>153</b>
Delta M&I (not CCWD) **	72					123	94	210	153
CVP M&I contract (CCWD)	118	CVP RF	CVP RF	CVP RF	CVP RF	-	-	-	-
<b>Total, Bay-Delta System</b>	<b>18,975</b>					<b>25,000</b>	<b>25,000</b>	<b>25,000</b>	<b>25,000</b>
*Revenue estimate assumes fees collected on 60% of diversions.									
**Revenue estimate assumes fees collected on 80% of diversions.									
Option 1: Uniform fee		Option 2: Higher fee for exports		Option 3: Higher fee for urban		Option 4: Higher fee for exports and urban			



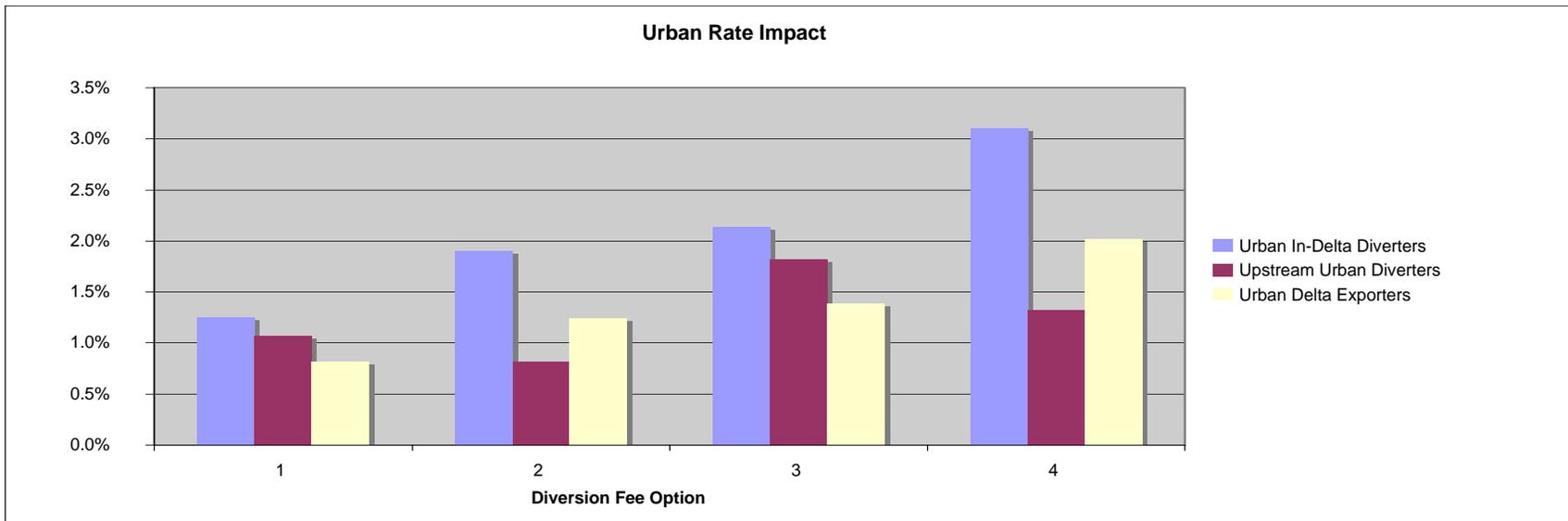
**Figure 1**



**Figure 2**



**Figure 3**



**Figure 4**

### *Fees Based on Storage Capacity*

This option would charge owners of surface water storage facilities based on the amount of storage capacity. All major facilities that store water from Bay-Delta watersheds would pay the fee. This option differs from a diversion fee option in that a variety of types of users of storage space would pay. Some storage facilities are used primarily for water supply, but some facilities are operated for flood control, hydropower, recreation, and other purposes. All persons who benefit from the facilities, not just water users, would probably pay. It would be up to each storage owner to determine how fee costs would be recovered from each of the purposes.

The unit charge (\$/AF storage) could be adjusted to obtain any desired revenue, subject to ability to pay. Ability to pay, in this context, means that at sufficiently high fee levels some storage users might not be induced to pay by any reasonable incentives.

Revenues would also depend on the size of facilities covered under the fee. There are thousands of small storage facilities in the state. It would be impractical to try to collect fees from a large number of small storage facilities, and a decision regarding the cut-off point for facilities covered by the fee would be required.

Metropolitan Water District of Southern California developed an example where only large storage facilities are included. Storage capacities for 33 major reservoirs are used. Two alternative actions are evaluated. In one, \$45 million is raised and all storage capacity pays the same fee. In the second, CVP facilities must contribute \$20 million and non-CVP facilities contribute \$25 million per year.

Results are summarized in Table 2 below. In either action, the CVP pays about \$20 million per year, the SWP pays about \$7 million, and the "Other-Local" category pays about \$14.5 million per year. Table 3 lists the storage facilities included in "Other-Local." The fees amount to \$1.94/AF of storage capacity.

**Table 2. Results of Metropolitan's Analyses, Fees Allocated According to Share of Storage Space**

Storage Operator	# of Reservoirs	MAF Capacity	CVP pays \$20 Mil, All Others Pays \$25 Mil		All Storage Pays the Same Fee	
			\$ millions	\$/AF	\$ millions	\$/AF
SWP	2	3.64	\$7.1	\$1.95	\$7.0	\$1.93
USBR/CVP	8	10.46	\$20.0	\$1.91	\$20.2	\$1.93
USCE	5	1.68	\$3.3	\$1.95	\$3.3	\$1.93
OTHER-LOCAL	18	7.48	\$14.6	\$1.95	\$14.5	\$1.93
TOTAL	33	23.27	\$45.0	\$1.93	\$45.0	\$1.93

**Table 3. Other-Local Storage Facilities Included in Metropolitan's Analyses, Fees Allocated According to Share of Storage Space**

Reservoir	Owner	Stream	Capacity (AF)	Share of Capacity
Almanor	PG&E	North Fork Feather	1,308,000	17.5%
Bucks Lake	PG&E	Bucks Creek	103,000	1.4%
Salt Springs	PG&E	N. F. Mokelumne	141,900	1.9%
Little Grass Valley	SFWPA	South Fork Feather	93,010	1.2%
French Meadows	PCWA	M. F. American	136,000	1.8%
Hell Hole	PCWA	Rubicon River	208,400	2.8%
Loon Lake	SMUD	Gerle Creek	76,500	1.0%
Union Valley	SMUD	Silver Creek	230,000	3.1%
Indian Valley	YCFCWCD	N. F. Cache Crk	300,000	4.0%
Clear Lake	YCFCWCD	Cache Creek	313,000	4.2%
Pardee	EBMUD	Mokelumne River	210,000	2.8%
Camanche	EBMUD	Mokelumne River	412,120	5.5%
Lake Lloyd (Cherry)	SF	Cherry Ck/Tuolumne	274,300	3.7%
Hetch Hetchy	SF	Tuolumne River	360,000	4.8%
New Don Pedro	TID	Tuolumne River	2,030,000	27.1%
Lake McClure	Merced Co	Merced River	1,024,600	13.7%
Edison	SCE	Mono Creek	125,000	1.7%
Shaver	SCE	Stevenson Creek	135,400	1.8%
		TOTAL	7,481,230	100.0%

The breakdown indicates that, in this example, relatively large shares of the \$14.5 million would be paid by TID (27.1%), P&E (20.8%), and Merced County (13.7%). Note that inclusion of hydropower facilities causes the distribution of costs within the “other” category to differ significantly from diversion-based fees.

*Fee levels by water user class*

The amount of fee paid by water user class cannot be determined, even for the example, because many storage facilities are used for multiple purposes. It would be up to each owner/operator to determine how fee costs would be recovered from each of the purposes. This also means that rate impacts cannot be evaluated without a better understanding of how storage operators might allocate these fees. However, some general findings for each water user class are possible.

- *Sacramento Valley Agriculture*

Most water users under this water user class do not own surface water storage. There are some small facilities such as Black Butte Lake and Stony Gorge that might contribute. Lake Berryessa, if included, would be an important contributor. CVP project agriculture, primarily in the Tehama Colusa service area, would continue to contribute through the CVP RF. Therefore the new contribution by this group would probably be small. Many water users would pay no fee.

- *Delta Agriculture*

This group owns no significant surface storage, so their fee level would be zero to minimal.

- *Delta Export Agriculture*

The share of new fees paid by Delta Export Agriculture would depend on how much of the storage fee is allocated to agricultural water use, municipal water use, and other storage purposes. SWP Ag Project users would contribute based primarily on storage capacity at Oroville. The total SWP contribution of \$7 million would be split between municipal and agricultural water and other SWP users. CVP Ag contracts would continue to contribute through the CVP RF. CVP settlement and exchange users would probably not contribute.

- *Other SJV Agriculture*

This group would contribute substantially in proportion to surface water storage facilities on the Eastside San Joaquin, but shares paid by hydropower, municipal and other storage users might limit their dollar contribution. CVP agriculture served by the Friant and Madera units already contributes through fees required by the CVPIA. Many water users do not use storage and therefore would pay no fee.

- *Upstream Urban Diverters*

This group would contribute substantial new funds through eastside reservoirs owned by EBMUD and the City and County of San Francisco. Metropolitan's analysis suggests that

these two users would contribute 16.8% of the “Other-local” category or \$2.4 million per year. This share could vary depending on the amount of total storage capacity included as a basis for the fee.

- *Urban Delta Exporters*

This group would contribute primarily through reservoir space owned by the SWP. The total SWP contribution of \$7 million would be split between municipal, agricultural and other SWP users.

Some CVP urban use would be included. This group already contributes through the CVP RF. The analysis by Metropolitan and precedent suggest that, even if the restoration fund were replaced by a storage-based fee, the amount of cost paid by the CVP would not change substantially.

- *CVP M&I CCWD*

Any adjustment to current restoration payments would probably be small.

#### ***Discussion of Storage-Based Fees***

- *Adherence to benefits-based approach*

The water user cost share (30%) proposed in the Finance Plan recognizes the significant benefits expected to accrue to the water users from the ERP as well as the impacts diversions or storage have on the ecosystem. This option is based on a theory that storage users benefit from the ERP and impact the ecosystem, and should pay based on the capacity of water storage. Water storage is presumed to be a proxy for benefits and impacts. The benefits might be avoided costs of complying with environmental laws involving amount of water stored, water yield of the watershed blocked by dams, and for habitat blocked or inundated. This approach embodies the idea that all persons who capture surface water in surface storage facilities should contribute regardless of how they use the water. Storage space for flood control, hydropower, emergency storage and all other uses would pay.

Implicit in this option is the idea that persons who divert and use natural flows – water that has not been stored – do not benefit or impact from the ERP. Therefore, they do not pay. For this option to be consistent with a benefits-based approach there must be consensus that these water users do not contribute to Bay-Delta problems, or they are not responsible for them, or they have already contributed their fair share.

- *Administrative feasibility and cost*

This option would be highly feasible in terms of simplicity of administration. Storage capacities are known with a relative high degree of certainty. The costs of administration

would increase with the number of smaller storage facilities included in the fee basis. At some point, the incremental costs of collecting from small facilities would exceed the incremental fee revenue, and such small facilities should not be included in the fee basis.

There are some issues about the feasibility of this option in relation to many other environmental laws and permitting for storage facilities. In particular, FERC typically requires many environmental improvements as part of their storage licensing. Possibly, the storage fees would have to be included as part of future license requirements.

- *Ability to improve resource efficiency*

This option would do little to nothing to improve resource efficiency because there is no additional, variable fee imposed on resource use. This finding presumes that resource prices are already too low, so some additional price would improve efficiency. Possibly, the new fee would discourage construction of new storage facilities.

- *Revenue Generation*

This option would provide a constant source of revenue. Unlike a diversion fee, price substitution effects and variations in annual water use caused by weather or the economy would not affect revenue generated by this fee structure.

- *Social equity*

The distribution of costs of fees over income groups cannot be determined because each storage owner would determine the allocation of costs among storage users.

This option could be viewed as more equitable in that all users of water storage facilities, not just water users, must contribute. On the other hand, persons who divert Bay-Delta water but do not store would not contribute.

- *Key Uncertainties*

A key uncertainty involves interactions with other regulatory requirements for storage facilities – notably FERC relicensing of storage facilities producing hydropower.

### ***Fees Based on Diversions & Storage Capacity***

The last option presented combines the first two approaches. Half of the revenue requirement is recovered with a diversion fee and half with a storage fee. The resulting diversion and storage fees are shown in Tables 4 and 5, respectively. Because of the assumption that each fee would generate half of the \$25 million revenue requirement, the fee levels are simply 50% of those shown in Tables 1 and 2. As with the other options, water users already paying into the CVP RF would not be subject to these fees.

### *Discussion of Combined Diversion & Storage Fee*

- *Adherence to Benefits-Based Approach*

This option adopts the position that both diverters and storage users potentially benefit from the ERP and impact the ecosystem. The benefits would primarily be avoidance of more stringent regulation of storage and diversions to protect at-risk species and habitat and therefore more reliable and lower cost water supply and power generation than would be the case without the ERP. Water diverters with access to storage are presumed to benefit most and therefore would pay higher fees than water users that divert without storage (e.g. much of Sacramento Valley agriculture) or store water but don't divert offstream (e.g. hydropower, flood protection, and reservoir recreation). Whether the pattern of ERP benefits actually follows this implied distribution requires further analysis.

- *Administrative feasibility and cost*

Storage fees would be relatively easy to administer. Administration of diversion fees would face the same challenges discussed earlier. This example adopts the same revenue collection assumptions as before: namely, that revenue would be collected on 80% of non-project urban diversions and 60% of non-project agricultural diversions.

- *Ability to Improve Resource Efficiency*

If one accepts the premise that current diversion prices do not fully reflect the social costs of surface water development, then increasing diversion costs with a diversion fee could improve resource efficiency. This option would be less effective in this regard than relying only on a diversion fee but would be more effective than only relying on a storage fee.

- *Revenue Generation*

Revenue under this option would be more stable and predictable than under a diversion fee only, but less reliable than under a storage fee only. It provides a middle case between the storage fee and diversion fee options. Revenue risks caused by price substitution effects and variations in diversions caused by economic and weather variables would be lessened but not eliminated.

- *Social Equity*

This option identifies all water users impacting the Bay-Delta watershed as potential beneficiaries of the ERP. Unlike the diversion-fee-only option, which excludes hydropower, flood protection, and recreation, or the storage-fee-only option, which

excludes diverters without storage, this option allocates ERP costs to all these users. If one accepts the premise that all of these users potentially gain from ERP actions, this option could be viewed as the most equitable of the three provided a consensus forms around the division of water user costs among these various user groups. One of the challenges of this option with regard to fairness is the fact that some users will be subject to both fees while others will be subject to only one fee. If fee amounts do not adequately reflect at least in a general way the benefits accruing to these different groups, particularly those paying both fees could see this approach as inequitable.

Table 4. ERP Diversion Fee With \$12.5 Million Revenue Requirement

Water Users in Beneficiary Group	Estimated TAF Diversion by Water User to Estimate Fee Revenue	Diversion Fee Option (\$/AF)				Revenue by Diversion Fee Option (\$1,000)			
		1	2	3	4	1	2	3	4
<b>Sacramento Valley Agriculture</b>	<b>5,159</b>	<b>1.06</b>	<b>0.81</b>	<b>0.90</b>	<b>0.66</b>	<b>3,874</b>	<b>2,958</b>	<b>3,302</b>	<b>2,414</b>
DWR SWP Sac V	16					17	13	15	11
SWP Ag settlement contracts	1,005					1,066	814	909	665
CVP Ag settlement contracts Sac	1,424					1,511	1,154	1,288	942
Ag Nonproject *	2,009					1,279	977	1,090	797
CVP Ag contracts	704	CVP RF	CVP RF	CVP RF	CVP RF	-	-	-	-
<b>Delta Agriculture</b>	<b>1,219</b>	<b>1.06</b>	<b>0.81</b>	<b>0.90</b>	<b>0.66</b>	<b>763</b>	<b>583</b>	<b>651</b>	<b>476</b>
Ag Nonproject Sac V Delta *	490					312	238	266	194
Ag Nonproject SJV Delta *	709					452	345	385	281
CVP Ag contracts	20	CVP RF	CVP RF	CVP RF	CVP RF	-	-	-	-
<b>Delta Export Agriculture</b>	<b>3,805</b>	<b>1.06</b>	<b>1.62</b>	<b>0.90</b>	<b>1.32</b>	<b>2,343</b>	<b>3,578</b>	<b>1,997</b>	<b>2,920</b>
SWP Ag Project	1,331					1,412	2,157	1,204	1,760
CVP Ag exchange contracts	720					764	1,166	651	952
CVP Ag settlement contracts SJV	158					167	255	142	208
CVP Ag contracts	1,597	CVP RF	CVP RF	CVP RF	CVP RF	-	-	-	-
<b>Other San Joaquin Valley Agriculture</b>	<b>6,258</b>	<b>1.06</b>	<b>0.81</b>	<b>0.90</b>	<b>0.66</b>	<b>3,356</b>	<b>2,563</b>	<b>2,861</b>	<b>2,092</b>
Ag Nonproject *	5,272					3,356	2,563	2,861	2,092
CVP Ag contracts	986	CVP RF	CVP RF	CVP RF	CVP RF	-	-	-	-
<b>Upstream Urban Diverters</b>	<b>824</b>	<b>1.06</b>	<b>0.81</b>	<b>1.81</b>	<b>1.32</b>	<b>577</b>	<b>441</b>	<b>984</b>	<b>719</b>
CVP M&I settlement contracts Sac	30					32	25	55	40
M&I Nonproject **	642					545	416	929	679
CVP M&I contract Sac	152	CVP RF	CVP RF	CVP RF	CVP RF	-	-	-	-
CVP M&I contract Friant	44	CVP RF	CVP RF	CVP RF	CVP RF	-	-	-	-
<b>Urban Delta Exporters</b>	<b>1,519</b>	<b>1.06</b>	<b>1.62</b>	<b>1.81</b>	<b>2.65</b>	<b>1,525</b>	<b>2,329</b>	<b>2,600</b>	<b>3,802</b>
SWP M&I Project	1,362					1,445	2,208	2,464	3,603
CVP M&I exchange contracts	71					75	115	129	188
CVP M&I settlement contracts SJV	4					4	6	7	10
CVP M&I contracts	82	CVP RF	CVP RF	CVP RF	CVP RF	-	-	-	-
<b>Urban In-Delta Diverters</b>	<b>191</b>	<b>1.06</b>	<b>0.81</b>	<b>1.81</b>	<b>1.32</b>	<b>62</b>	<b>47</b>	<b>105</b>	<b>77</b>
Delta M&I (not CCWD) **	72					62	47	105	77
CVP M&I contract (CCWD)	118	CVP RF	CVP RF	CVP RF	CVP RF	-	-	-	-
<b>Total, Bay-Delta System</b>	<b>18,975</b>					<b>12,500</b>	<b>12,500</b>	<b>12,500</b>	<b>12,500</b>

\*Revenue estimate assumes fees collected on 60% of diversions.  
 \*\*Revenue estimate assumes fees collected on 80% of diversions.

Option 1: Uniform fee	Option 2: Higher fee for exports	Option 3: Higher fee for urban	Option 4: Higher fee for exports and urban
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**Table 5. Storage Fee With a \$12.5 Million Revenue Requirement**

<b>Storage Fee</b>	<b>\$1,000/Yr</b>	<b>Capacity</b>	<b>\$/AF</b>
SWP	3,555	3,642	0.98
TID	1,981	2,030	0.98
USCE	1,643	1,683	0.98
PG&E	1,516	1,553	0.98
Merced County	1,000	1,025	0.98
SF	619	634	0.98
EBMUD	607	622	0.98
YCFCWCD	598	613	0.98
PCWA	336	344	0.98
SMUD	299	307	0.98
SCE	254	260	0.98
SFWPA	91	93	0.98
USBR/CVP	-	10,459	-
<b>Revenue Generated (\$1,000)</b>	<b>12,500</b>	<b>23,266</b>	

***Summary of Allocated Costs Under Each Fee Option***

Table 6 summarizes how ERP costs allocated to water users would be divided among SWP, CVP, and non-project water users under each of the three fee options. ERP costs assigned to non-project water users are highest under the storage fee option and lowest under the diversion fee option. For the SWP, the situation is reversed. Fees are highest under the diversion fee option and lowest under the storage fee option. It is also important to remember that the mix of non-project water users is not the same between these two options. In the case of a diversion fee, non-project water users include diverters without storage, but exclude storage without diversions (e.g. hydropower, flood protection, and recreation). In the case of a storage fee, the opposite is the case. Only in the case of the combined storage and diversion fees does the non-project water user category include both diverters without storage and storage without diversions.

**Table 6. Summary of Division of Water User Costs**

<b>Diversion Fee Only (\$ millions)</b>				
<i>Diversion Fee Variation</i>				
<b>Water User</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>
SWP	7.9	10.4	9.2	12.1
CVP	20.0	20.0	20.0	20.0
CVP Settle/Exch	5.1	5.4	4.5	4.7
Non Project	12.0	9.2	11.3	8.2
<b>Total</b>	<b>45.0</b>	<b>45.0</b>	<b>45.0</b>	<b>45.0</b>
<b>Storage Fee Only (\$ millions)</b>				
<b>Water User</b>				
SWP	7.1			
CVP	20.0			
CVP Settle/Exch				
Non Project	17.9			
<b>Total</b>	<b>45.0</b>			
<b>Storage &amp; Diversion Combined Fees (\$millions)</b>				
<i>Diversion Fee Variation</i>				
<b>Water User</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>
SWP	7.5	8.7	8.1	9.6
CVP	20.0	20.0	20.0	20.0
CVP Settle/Exch	2.6	2.7	2.3	2.3
Non Project	15.0	13.5	14.6	13.1
<b>Total</b>	<b>45.0</b>	<b>45.0</b>	<b>45.0</b>	<b>45.0</b>

*Data Tables Used to Compute Diversion and Storage Fees*

Water Users in Beneficiary Group	Estimated TAF Diversion by Water User to Estimate Fee Revenue	Baseline Unit Cost (\$/AF)	Baseline Diversion Cost (\$1,000)
Sacramento Valley Agriculture	5,159	7.61	39,240
DWR SWP Sac V	16	26.84	442
SWP Ag settlement contracts	1,005	0.46	466
CVP Ag settlement contracts Sac	1,424	-	-
Ag Nonproject *	2,009	15.00	30,139
CVP Ag contracts 1/	704	11.63	8,193
<b>Delta Agriculture</b>	<b>1,219</b>	<b>15.03</b>	<b>18,328</b>
Ag Nonproject Sac V Delta *	490	15.00	7,349
Ag Nonproject SJV Delta *	709	15.00	10,639
CVP Ag contracts	20	17.13	339
<b>Delta Export Agriculture</b>	<b>3,805</b>	<b>39.22</b>	<b>149,245</b>
SWP Ag Project	1,331	75.16	100,018
CVP Ag exchange contracts	720	-	-
CVP Ag settlement contracts SJV	158	-	-
CVP Ag contracts 3/	1,597	30.82	49,226
<b>Other San Joaquin Valley Agriculture</b>	<b>6,258</b>	<b>25.05</b>	<b>156,728</b>
Ag Nonproject *	5,272	25.00	131,804
CVP Ag contracts 4/	986	25.29	24,924
<b>Upstream Urban Diversifiers</b>	<b>824</b>	<b>131.01</b>	<b>107,930</b>
CVP M&I settlement contracts Sac	30	-	-
M&I Nonproject *	642	150.00	96,275
CVP M&I contract Sac 6/	152	76.88	11,656
CVP M&I contract Friant 5/	44	50.55	2,223
<b>Urban Delta Exporters</b>	<b>1,519</b>	<b>246.27</b>	<b>374,156</b>
SWP M&I Project 2/	1,362	271.62	370,004
CVP M&I exchange contracts	71	-	-
CVP M&I settlement contracts SJV	4	-	-
CVP M&I contracts 7/	82	50.55	4,153
<b>Urban In-Delta Diversifiers</b>	<b>191</b>	<b>51.56</b>	<b>9,827</b>
Delta M&I (not CCWD) *	72	50.00	3,623
CVP M&I contract (CCWD) 8/	118	52.52	6,204
<b>Total, Bay-Delta System</b>	<b>18,975</b>	<b>45.08</b>	<b>855,455</b>

- 1/ Baseline unit cost includes Restoration Payment
- 2/ Baseline unit cost is for So. Cal.
- 3/ Baseline unit cost is for Delta-Mendota and includes Restoration Payment
- 4/ Baseline unit cost is for Friant-Kern and includes Restoration Payment
- 5/ Baseline unit cost is for Friant-Kern and includes Restoration Payment
- 6/ Baseline unit cost is for Folsom-South Canal and includes Restoration Payment
- 7/ Baseline unit cost is for Friant-Kern Canal and includes Restoration Payment
- 8/ Includes Restoration Payment

\* Baseline unit costs for ag/urban non project are regional estimates.

Reservoir	Dam	Owner	Stream	Reservoir Area (Acres)	Capacity (AF)
<b>State Water Project Reservoirs</b>					
Oroville	Oroville Dam	DWR	Feather River	15,800	3,537,600
Camp Far West	Camp Far West	DWR	Bear River	2,050	104,500
<b>SUBTOTAL</b>				<b>17,850</b>	<b>3,642,100</b>
<b>USBR/CVP Reservoirs</b>					
Shasta	Shasta Dam	USBR	Sacramento River	29,500	4,552,000
Whiskeytown Dam	Whiskeytown	USBR	Clear Creek	3,200	241,000
Folsom Lake	Folsom Dam	USBR	American River	11,450	977,000
New Melones	New Melones	USBR	Stanislaus River	12,500	2,400,000
Berryessa	Montecello	USBR	Putah Creek	20,700	1,602,000
Beardsley *	Beardsley	USBR	Stanislaus River	650	77,600
Huntington *	Huntington	USBR	South Fork San Joaquin	1,440	89,800
Millerton	Friant	USBR	San Joaquin	4,900	520,000
<b>SUBTOTAL</b>				<b>84,340</b>	<b>10,459,400</b>
<b>USCE Reservoirs</b>					
Black Butte	Black Butte	USCE	Stony Creek	4,560	160,000
New Bullards Bar	New Bullards Bar	USCE	North Yuba River	4,810	966,103
New Hogan	New Hogan	USCE	Calaveras River	4,410	317,100
Eastman Lake	Buchanan	USCE	Chowchilla River	1,780	150,000
Hensley Lake	Hidden Dam	USCE	Fresno River	1,570	90,000
<b>SUBTOTAL</b>				<b>17,130</b>	<b>1,683,203</b>
<b>Other/Local Reservoirs</b>					
Pardee *	Pardee	EBMUD	Mokelumne River	2,134	210,000
Camanche	Camanche	EBMUD	Mokelumne River	7,700	412,120
Lake McClure	New Exchequer	Merced County	Merced River	7,130	1,024,600
French Meadows *	French Meadows	PCWA	Middle Fork American	1,420	136,000
Hell Hole *	Lower Hell Hole	PCWA	Rubicon River	1,250	208,400
Almanor	Canyon	PG&E	North Fork Feather	28,257	1,308,000
Bucks Lake *	Bucks Storage	PG&E	Bucks Creek	1,827	103,000
Salt Springs *	Salt Springs	PG&E	North Fork Mokelumne	975	141,900
Edison *	Vemilion Valley	SCE	Mono Creek	1,890	125,000
Shaver *	Shaver Lake	SCE	Stevenson Creek	2,177	135,400
Lake Lloyd (Cherry Lk) *	Cherry Valley Dam	SF	Cherry Crk/Tuolumne R	1,760	274,300
Hetch Hetchy *	O'Shaughnessy	SF	Tuolumne River	1,972	360,000
Little Grass Valley	Little Grass Valley	SFWPA	South Fork Feather	1,433	93,010
Loon Lake *	Loon Lake	SMUD	Gerle Creek	1,450	76,500
Union Valley *	Union Valley	SMUD	Silver Creek	2,575	230,000
New Don Pedro	Don Pedro	TID	Tuolumne River	12,960	2,030,000
Indian Valley	Indian Valley	YCFCWCD	North Fork Cache Crk	4,000	300,000
Clear Lake	Clear Lake Imp	YCFCWCD	Cache Creek	43,000	313,000
<b>SUBTOTAL</b>				<b>123,910</b>	<b>7,481,230</b>
<b>TOTAL</b>				<b>243,230</b>	<b>23.3 MAF</b>

Data from DWR Website: <http://cdec.water.ca.gov/misc/resinfo.html>;

Legend: PCWA: Placer County Water Agency  
 SCE: Southern California Edison  
 EBMUD: East Bay Municipal Utility District  
 YCFC&WCD: Yolo County Flood Control & Water Conservation District  
 SFWPA: South Feather Water and Power Agency  
 SMUD: Sacramento Municipal Utility District  
 COE: United States Army Corps of Engineers  
 TID: Turlock Irrigation District



## United States Department of the Interior

BUREAU OF RECLAMATION  
Mid-Pacific Regional Office  
2800 Cottage Way  
Sacramento, California 95825-1898

IN REPLY  
REFER TO:  
MP-120  
PRJ-5.00

JAN 25 2005

Mr. Patrick Wright  
Executive Director  
California Bay-Delta Authority  
650 Capital Mall, 5<sup>th</sup> Floor  
Sacramento, California 95814

Dear Mr. Wright:

This letter is in response to the recent action taken by the California Bay-Delta Authority at the December 8-9, 2004, Board Meeting to adopt the CALFED Bay-Delta Program Finance Plan (Plan) as a framework for guiding the financing of the CALFED Program for the next ten years. The Authority's action represents an important first step in establishing cost-sharing and financing mechanisms to support implementation of the CALFED Program (Program). With the shortage of available State and Federal funding and with other sources of available funding to support the Program ending, the need for this comprehensive Plan to help identify how to equitably finance priority activities is timely.

However, as we move forward with Program implementation, Reclamation does have concerns related to our participation in the Program. We have voiced our concerns over the proposed cost allocations for projects identified in the Plan not being consistent with current Federal Law, and which may not be consistent with allocations proposed by Reclamation in the future. We also feel that while it may be reasonable to anticipate an increased level of Federal funding given the recent passage of the CALFED Bay-Delta Authorization Act (Act), the estimates in the Plan far surpass the ceiling for new Federal appropriations authorized by the Act. Finally, we are also concerned that the Plan underestimates the actual Federal contribution to the Program, potentially resulting in the need for additional non-federal funds to meet the cost-share requirements mandated by the Act.

As a CALFED implementing agency, Reclamation is committed to continue working with the Authority and the other CALFED agencies and stakeholders as we work through the difficult task of financing the Program. Addressing the issues identified in this letter will be an important step in moving forward with the Plan.

Sincerely,

  
Kirk C. Rodgers  
Regional Director

cc: See list on next page

cc: Mr. Gary Hunt  
Chairman, California Bay-Delta Authority  
650 Capital Mall, 5<sup>th</sup> Floor  
Sacramento, CA 95814

Mr. Mike Chrisman  
Secretary for Resources  
Resources Agency  
1416 Ninth Street, Suite 1311  
Sacramento, CA 95814

Mr. Wayne Nastri  
Regional Administrator  
Environmental Protection Agency  
75 Hawthorne Street, 18<sup>th</sup> Floor  
San Francisco, CA 94105

Mr. Charles Bell  
State Conservationist  
U.S. Department of Agriculture  
Natural Resources Conservation Service  
430 G Street, Room 4164  
Davis, CA 95616

Mr. Jack Blackwell  
Regional Forester  
Pacific Southwest Region  
U.S. Department of Agriculture  
Forest Service  
1323 Club Drive  
Vallejo, CA 94592

Mr. James Keselburg  
Regional Manager  
Sierra Nevada Region  
Western Area Power Administration  
114 Parkshore Drive  
Folsom, CA 95630

Mr. Rodney McInnis  
Regional Administrator  
National Marine Fisheries Service  
501 W. Ocean Blvd, Suite 4200  
Long Beach, CA 90802

Col. Ronald L. Light  
District Engineer  
U.S. Army Corps of Engineers  
Sacramento District  
1325 J Street, 13<sup>th</sup> Floor (CESPK-DE)  
Sacramento, CA 95814

Mr. Larry Smith  
Assistant District Chief for Programs &  
CALFED Coordinator  
U.S. Geological Survey  
600 J Street  
Sacramento, CA 95819

Mr. Mike Pool  
State Director  
Bureau of Land Management  
2800 Cottage Way, Room W-1622  
Sacramento, CA 95825

Mr. Steve Thompson  
Manager, California/Nevada Operations  
Office  
Fish & Wildlife Service  
2800 Cottage Way, W-2606  
Sacramento, CA 95825

Mr. Jason Peltier  
Deputy Assistant Secretary for  
Water & Science  
Department of the Interior  
1849 C Street, NW (MS-6640-MIB)  
Washington, DC 20240

Mr. Ed Gee  
Solicitor's Office  
Pacific Southwest Region  
2800 Cottage Way, Room E-1712  
Sacramento, CA 95825

RECEIVED  
CA BAY-DELTA AUTHORITY  
MAIL ROOM

2005 JAN 19 PM 1:04

January 13, 2005

Governor Arnold Schwarzenegger  
State Capitol  
Sacramento, CA 95814

Subject: CALFED Bay-Delta Program Finance Plan

Dear Governor Schwarzenegger:

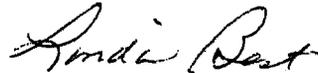
On December 9, 2004 the California Bay-Delta Authority adopted a ten-year Finance Plan (Plan) that provides a framework to fund the various elements of the CALFED Program. The Plan identifies a total funding assessment of \$8.1 billion during the 10-year period. The Plan also allocates the anticipated funding sources on a beneficiary pays principle, which results in an allocation of \$2.4 billion, or 30% to the state of California. The remainder is allocated to the Federal government, local entities and Delta water users.

We recognize that there are many competing interests for state revenue and it is difficult to determine the relative importance in preparing an annual budget. But as we have seen, the limited water resources available for municipal, industrial, agricultural, recreational and environmental needs create on-going battles for solving the water supply problems in the state. The economic vitality and quality of life in California demands solutions. The Plan identifies a program with corresponding funding sources that will provide a balanced solution. The Plan identified the needs through a public process that allowed all interests to participate. The costs to satisfy those needs have been reviewed and the Plan developed a reasoned funding allocation system. Now is the time to move forward and continue to implement the programs and projects identified in the Plan

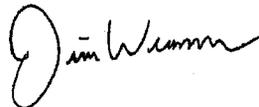
The groups that are signatories to this letter represent the business interests of the San Francisco Bay area. We are supportive of the objectives of the CALFED Program and encourage you to place the highest priority on the funding needs identified in the Plan as you prepare your budget message for 2005-2006. We also recognize that much of the funding needs could be incorporated into another bond issue devoted to the water resource needs of the state. We also encourage you to request the legislature to begin developing such a bond measure to be placed on the ballot in 2006.

We urge that the governing leadership of the state provide the direction necessary to find and implement solutions for the water resource needs of all of California. Our economy depends on finding those solutions.

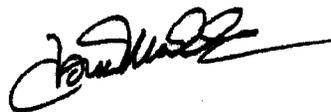
Sincerely,



Linda Best  
Executive Director  
Contra Costa Council



Jim Wunderman  
President & CEO  
Bay Area Council



Tom O'Malley  
Executive Director  
Tri Valley Business Council

Cc: Bay Area Legislative Delegation

Gary Hunt  
Patrick Wright



650 Capitol Mall, 5<sup>th</sup> Floor  
Sacramento, CA 95814  
916.445.5511 FAX 916.445.7297  
<http://calwater.ca.gov>

January 12, 2005

Honorable Michael J. Machado  
Member of the Senate  
State Capitol, Room 5066  
Sacramento, CA 95814

Dear Senator Machado:

Thank you for your recent letter commenting on the CALFED Bay-Delta Program's Finance Plan. We appreciate your taking the time to focus on this important issue.

As you know, the Authority unanimously approved the proposed Finance Plan at its joint meeting with the Bay-Delta Public Advisory Committee last month. The Authority members believe that the plan, while not perfect, offers a historic opportunity to put into practice a ground-breaking, benefits-based finance plan, and to provide a framework for securing state, federal, and local funding necessary to meet our most pressing water needs. I believe this action represents a significant milestone for the Bay-Delta Program.

Having said that, your letter raises several valid concerns that will need to be considered as the Authority moves forward with its financing plan, including the following major issues:

- **Funding targets.** Although CALFED's funding targets have now been reduced nearly 40% from the levels called for in the Record of Decision, we recognize that the Program's price tag is ambitious. The Authority's approach is to seek funding levels necessary to meet our revised targets while recognizing the need to prioritize and re-evaluate our progress in meeting those targets through our annual planning process. On the federal side, for example, the funding targets are consistent with the recent authorization bill, but will need to be prioritized during the appropriations process. We also share your concern regarding potentially stranded assets and will carefully consider such issues during the annual planning discussions.
- **Public funds.** The plan's benefits-based approach is grounded in the belief that those who benefit from program actions should pick up the costs commensurate with those benefits. Authority staff have worked exhaustively over the past two years to identify and assign benefits and apportion costs for each major project and program element, but additional work is necessary to better define the benefits and costs of some programs and projects. The plan supports your view, for example, that the

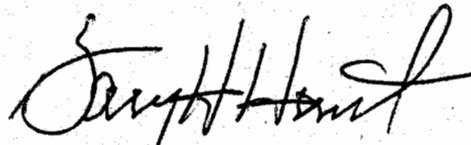
Honorable Michael J. Machado  
January 12, 2005  
Page Two

Delta exporters should contribute to the EWA and Levees programs, but also recommends that these contributions be phased in as the benefits and costs are better defined.

In summary, I am confident that we can address your concerns through our annual planning process and through further development of several key elements of the plan. I look forward to working with you and other members of the legislature in the coming months as we further define and implement the plan.

Please feel free to contact me at (949) 252-8990 if you have any questions or if I or my staff can be of any assistance.

Sincerely,

A handwritten signature in black ink, appearing to read "Gary Hunt". The signature is fluid and cursive, with a large initial "G" and "H".

Gary Hunt  
Chairman



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San Diego County Water Authority

Col. John V. Foley  
Moulton Niguel Water District

Ronald R. Gastelum  
Metropolitan Water District  
of Southern California

Andy Horne  
Imperial Irrigation District

Donald Kendall  
Calleguas Municipal Water District

Ann Mathews  
Kern County Water Agency

John McFadden  
Coachella Valley Water District

Angel Santiago  
Inland Empire Utilities Agency

**TASK FORCE CHAIRS**

Richard Jemison  
Land Strategies

Kenneth Petersen  
Kennedy/Jenks

Stacy Roscoe  
Dee Zinke

Calleguas Municipal Water District

**CHAIR EMERITUS**

Hon. Harriett M. Wieder

**EXECUTIVE DIRECTOR**

Joan Anderson Dym

January 4, 2005

**Mr. Gary Hunt  
Chairman  
California Bay Delta Authority  
650 Capitol Mall, 5<sup>th</sup> Floor  
Sacramento, California 95814**

10184 Sixth Street ~ Suite C  
Rancho Cucamonga, CA 91730  
Phone (909) 980-4700  
Fax (909) 980-2628  
[www.socalwater.org](http://www.socalwater.org)

Dear Mr. Hunt:

On behalf of the Southern California Water Committee (SCWC), I am writing to commend you and members of the California Bay Delta Authority and the Bay Delta Policy Advisory Committee for approving a framework to advance the 10-year finance plan of the CALFED Bay Delta Program. Although the details of the finance plan need to be finalized, this first action by the Authority is an important step.

We understand that the adopted framework for the finance plan significantly shifts revenue sources for the next decade, and confines resource user-fees to funding a portion of the Ecosystem Restoration Program, the Environmental Water Account, and the levees program. As the plan is developed, the SCWC believes that water-user funds must be expressly linked to the above obligations and to the implementation of the actions in the CALFED program that improve water supply and water quality for the those contributing the funding. Additionally, the plan must include regulatory assurances that protect water users from additional water and financial losses if they honor their financial obligation.

The SCWC looks forward to working with the Authority as the detailed 10-year finance plan is formulated.

Very truly yours,

**Joan Anderson Dym  
Executive Director**

# State Water Resources Control Board

## Executive Office

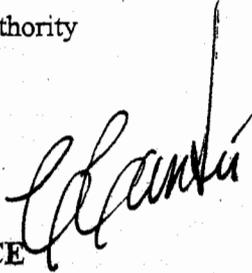
1001 I Street • Sacramento, California 95814  
P.O. Box 100 • Sacramento, California 95812-0100  
(916) 341-5615 • FAX (916) 341-5621 • <http://www.swrcb.ca.gov>

Arnold Schwarzenegger  
Governor

RECEIVED  
CALIFORNIA BAY-DELTA AUTHORITY  
MAIL ROOM  
2004 DEC 27 PM 1:38

TO: Patrick Wright, Director  
California Bay-Delta Authority

FROM: Celeste Cantú  
Executive Director  
EXECUTIVE OFFICE



DATE: DEC 22 2004

SUBJECT: CALFED BAY-DELTA PROGRAM FINANCE PLAN

On December 9, 2004 the California Bay-Delta Authority (BDA) adopted the CALFED Bay-Delta Program Finance Plan. On Page 6 in the paragraph titled "Benefit-Based Grant Programs" the Plan states "[t]he actual cost-share on any individual project should be determined based on analysis of that project's benefits."<sup>1</sup> As we have indicated to your staff, this requirement is unrealistic and unworkable for the financial assistance programs that the State Water Resources Control Board administers (water recycling and watershed protection).

The determination of local and state/federal benefits on a project-by-project basis cannot be done quantitatively at present. The Recycled Water Task Force recognized the potential value of determining the distribution of benefits for a specific project, but also indicated that there was no accepted methodology for doing so, that most potential applicants did not have the resources to do such an analysis, and that a uniform methodology for doing such analyses should be developed by the state. The Department of Water Resources (DWR) in their 2004 Water Use Efficiency Proposal Solicitation Package (WUE PSP) indicates that the cost share for a project should be based on the relative balance of Bay-Delta and local benefits expected for the project. The PSP goes on to state "[b]ecause project benefits and relative balance of Bay-Delta and local benefits are difficult or impossible to quantify, project applicants are expected to propose a subjective cost share and provide a descriptive case for the proposed share."

While the issue of determining who gets what benefits from water recycling projects has been discussed for some time, it is relatively new to watershed projects. Only the most recent version of the financing plan has proposed the concept. The issue was discussed at a few recent meetings involving the watershed program, but no methodology has been developed nor to our knowledge is there any consensus on how it can be done quantitatively. Our requests for information on how it would be determined from the BDA Watershed program manager have gone unanswered.

<sup>1</sup> Although a statement on Page 44 appears to provide latitude for water recycling, it only serves to confuse the requirement.

DEC 22 2004

Patrick Wright

- 2 -

At present there is only one way to address the requirement, the one chosen by the DWR in their WUE PSP. However, a subjective project-by-project analysis of benefits and determination of cost share has significant pitfalls. First is the lack of objectivity and the second is the potential for significant staff resource demands to review the analyses. The lack of an objective basis for determining the size of a grant will be perceived as a lack of fairness, which, in turn, will undermine the credibility of the process and program. Staff will have to put in considerable effort to analyze subject arguments. In essence every application will be a special case, requiring individual analysis, verification of information, and the development of valuation bases. We do not have the staff expertise or resources available to do this. Even these efforts will not guarantee funding decisions will be without question and criticism.

While the concept of determining the state/federal cost share on a project-by-project maybe appealing, doing so in a responsible manner is not feasible, at least for the water recycling and watershed protection programs. As the Finance Plan was adopted with significant caveats surrounding the actual details contained therein, we would hope that in the future any Bay-Delta Authority staff recommendations in this arena would be thoroughly discussed with the implementing agency and that you give great weight to the opinions of those who will be saddled with the burden of implementation.

If you have any questions, please contact me at (916) 341-5611.

December 6, 2004

The Honorable Joshua Bolten  
Director, Office of Management and Budget  
725 17<sup>th</sup> Street, NW  
Washington, DC 20503

Dear Mr. Bolten,

I write to request that the President's budget for Fiscal Year (FY) 2006 include \$100 million in funding for the California-Federal Bay-Delta (CALFED) program. This funding, when divided among the accounts of the different agencies involved, will help to meet the goals set forth in P.L. 108-361, the recently enacted CALFED reauthorization legislation.

The CALFED program is designed to make water available for consumptive uses in California's urban and rural areas while enhancing environmental quality. Currently, the program relies on infrastructure built during the 1960's when California's population totaled only 16 million. The state is now home to 36 million people and is growing rapidly. A significant effort is needed to ensure that all aspects of the CALFED program grow in a balanced manner to meet the future challenges of this significant portion of the U.S. population.

P.L. 108-361 recognizes that a variety of federal agencies must be involved to meet the multifaceted needs of this program by directing the preparation of a crosscut budget for all federal signatories of the CALFED Record of Decision and Memorandum of Understanding. Allocating \$100 million to this crosscut budget during FY 2006 will allow these agencies to play meaningful roles in making CALFED a success.

Thank you for your attention to this important matter. I look forward to working with you as the federal budget process moves forward.

Sincerely,



Arnold Schwarzenegger

Kern County Water Agency  
Metropolitan Water District of Southern California  
San Luis & Delta Mendota Water Authority  
Santa Clara Valley Water District  
Tulare Lake Basin Water Storage District  
Westlands Water District

**WATER USERS' TECHNICAL COMMENTS  
CALFED FINANCE PLAN**

*December 8, 2004*

***Over-arching Principle:*** *Water users are willing to contribute to CalFED programs that provide a clear, definable benefit to their taxpayers and ratepayers. In addition to the local cost-share contributions assumed in the Finance Plan, water users are considering a resource user fee consistent with the following comments.*

*Financial support from resources users for the EWA and ERP is conditioned on the adequate financial participation of the state and federal agencies in providing their respective funding shares, and on receipt of related benefits which are defined as measurable water supply and water quality improvements and assurance that no additional water supply or financial costs will be imposed in other related regulatory forums, unless the regulatory agencies find that a jeopardy opinion is required to sustain a fish species. The assurances described below are required to link tangible benefits to resource user financial contributions.*

**ENVIRONMENTAL WATER ACCOUNT**

**COMMENTS**

1. The ten-year funding target should be reduced from \$438 million to \$340 million (or as that number may be modified by the science review). The EWA funding target includes significantly increased costs of \$5.3 million per year for science and \$4.5 million per year for administrative costs. The current EWA program performs similar tasks for far less.
2. EWA proposed cost allocations (50-50/public-water user, 50-50/CVP-SWP) are acceptable only as placeholders. The public/water user allocation will be subject to completion of a vigorous science review of the long-term EWA that determines the appropriate size of the EWA and the appropriate use of the EWA assets for ESA and recovery purposes. The CVP/SWP allocation will be subject to a periodic analysis of water supply benefits accruing to the two projects.
3. Linkage to the DIP must be explicitly stated. No water user contributions will be provided until the DIP is being implemented and expanded pumping at Banks Pumping Plant is fully implemented at 8,500 cfs.

4. No user fee legislation is required for the EWA. The Finance Plan must clearly state that the vehicle for water user contributions to the EWA will be a re-negotiated Four-Pumps Agreement for SWP water user contributions and the Restoration Fund for CVP water user contributions.
5. Additional explicit regulatory and financial assurances are required and will be developed as this proposal moves forward.
6. Costs of short-term EWA will continue to be provided by public funds, consistent with the intentions and assurances set forth in the ROD.
7. Costs for the long-term EWA will be split between the state and federal governments and water users.
8. The results from the comprehensive scientific review of the EWA will be incorporated into policy level decisions by the EWA Agencies with input from stakeholders.
9. Use of Prop. 50 section 7(d) monies for the EWA will be limited to 50 percent of the funds available from that section.
10. Coverage for CVPIA B2 over 800,000 AF.

## ECOSYSTEM RESTORATION PROGRAM

### COMMENTS

1. Despite continued reservations about the total annual funding target of \$150 million, water users may accept the CalFED-proposed \$45 million per year user contribution provided it is allocated more broadly to all beneficiaries, not just water exporters or diverters. The Finance Plan's Executive Summary must be revised to avoid creating the perception or implication that user support for ERP funding will come only from the CVP and SWP. All resource users with water projects in the Bay-Delta watersheds, including non-CVP and non-SWP power generators, will contribute.
2. Water and other resource users must be fully engaged in the development of how their contribution will be apportioned. The Executive Summary should be revised to remove CALFED's assumption regarding what share of the \$45 million would come from the Restoration Fund.
3. Like the EWA, the water user contribution to the ERP is conditioned upon tangible water supply and water quality benefits; the Executive Summary should reflect the water users' position that ERP contributions will not be provided until the DIP is implemented and expanded pumping at Banks Pumping Plant is fully implemented at 8,500 cfs.
4. Additional explicit regulatory and financial assurances are required and will be developed as this proposal moves forward.
5. The CVP share will be provided by the CVPIA Restoration Fund.

6. All contributors will receive explicit regulatory and financial assurances.
7. Regulatory agencies acknowledge that the ERP is the primary protection and restoration vehicle for the next 10-years.
8. Regulatory agencies would agree not to pursue any regulations that would impose water, power, or other costs on the water users for this period unless they can demonstrate that species are in jeopardy.
9. These assurances would remain valid, provided that the water users continue to pay into the ERP at agreed levels. Reduced assurances would result in reduced water user payments.
10. Water users agree to make best efforts to help raise the funds needed to fully fund the ERP.
11. Funding would be structured so that ERP funding is directed toward high priority ESA fish actions in the watershed of those users that contribute to the fee. This will require reform in the institutional mechanisms used to prioritize ERP investments.
12. Offsets must be provided for existing funding that meets ERP goals (current expenditures by SWP contractors or others must be credited the same way the CVP contractors receive credit for Restoration Fund payments).
13. ERP investments supported by the user fee will be implemented in a manner that eliminates the need for significant additional expenditures on new fish screens in the South Delta beyond available bond funds.
14. Resource user contributions to ERP will receive assurances of significantly reduced or no additional expenditures in other regulatory forums related to water and hydropower facilities.
15. User fee must be collected in a manner that does not affect the existing authority, tax liability, or require the passage of a measure by the voters in compliance with Prop. 218; and will not be imposed in years when the state imposes the ERAF shift.
16. Contributors will have a voice in how ERP funds are spent to assure that the benefits from the overall program are consistent with the payments, and contributions will be adjusted periodically based on annual accounting and measurement of benefits.

## OTHER PROGRAM AREAS

### Water Use Efficiency

1. We strongly support an aggressive Water Use Efficiency Program, but recommend that the Authority consider adopting a more realistic set of targets, in order to avoid later challenges of imbalance that may result from failure to meet unrealistic targets.
2. Water Use Efficiency funding targets, which have gone from \$2.2 billion in August to \$3.1 billion in the December 2004 plan, appear to be inflated and should be reviewed.

### **Science Program**

1. While we strongly support the CalFED Science Program, we have serious reservations about the size of its funding target, especially when combined with the generous science budgets in many of the other program targets.
2. We are concerned that the Science Program target alone is for a spending level triple its current rate and that most of this additional funding are for a loosely defined grants program.
3. We are concerned that inefficient overlaps between the Science Program and IEP have not been addressed.
4. We believe that the total amount budgeted for science over the ten-year period is excessive: The total, including the Science Program, IEP and science activities in all other programs, is \$89.7 million a year or nearly \$900 million for the ten-year duration.
5. IEP funding targets and resources user contributions need further discussion and review.

### **Water Quality**

1. Regional Planning is a critical element of the water quality program and the program priorities and finance plan must be revised to implement these plans at the appropriate time. This finance plan reflects current program priorities, but development and implementation of regional plans is the top priority of the program and may completely redefine the program and funding targets within the next three to five years. Funding targets in the plan therefore should be considered the minimum levels.

### **Levees**

1. We are pleased that the Plan accepts our recommendation that discussion of a levee user fee be postponed till completion of a Comprehensive Program Evaluation (the Strategic Plan), that will identify what levee improvements provide benefits to different users and where the priority improvements are needed.