

- **Board of Directors**
Water Planning, Quality and Resources Committee

May 11, 2004 Board Meeting

9-5

Subject

Adopt refinements to existing board policy positions on cost allocation and financing of CALFED Bay-Delta actions

Description

Purpose. This board letter proposes to further refine Metropolitan's existing general finance and cost allocation policy principles related to funding CALFED Bay-Delta actions. These refined principles will set the policy parameters for Metropolitan as the Legislature and/or the California Bay-Delta Authority develop a long-term financing plan for the CALFED Bay-Delta Program. The proposed policies were reviewed at the April 2004 Water, Planning, Quality and Resources Committee meeting and refinements are shown in ~~strikeout~~/underline.

Background. In 1994, a collaboration of stakeholder and governmental interests came together to develop a comprehensive, long-term plan for solving water quality, supply reliability, environmental, and system integrity issues related to California's Bay-Delta. Out of that process, the CALFED Bay-Delta Record of Decision emerged in August 2000 that laid out a blueprint for implementation.

In June 2003, as long anticipated in the CALFED process, stakeholder and state/federal representatives began discussions on a series of water and environmental projects that would move CALFED from planning to implementation. These discussions held in Napa, Stockton, and Sacramento included the identification of project costs and benefits. Currently, discussions are being held to develop a funding plan, including cost share allocation criteria, for the program.

The CALFED ROD calls for financing Bay-Delta actions through a combination of public (state and federal) and user contributions. The ROD also states that planning and feasibility actions will be pursued with state and federal public funds, and once a project is determined to be feasible, cost allocation agreements would be developed based on the "beneficiaries pay" principle. It has generally been understood that the beneficiaries of CALFED projects would vary depending on the project, and would include the public, if broad public benefits were provided.

Over the years, financing of the Bay-Delta Program has been supported by California voters through Proposition 204 (November 1996 bond), Proposition 13 (March 2000 bond), Proposition 50 (November 2002 bond), and through annual state and federal appropriations and water user contributions.

Existing Board Policy Principles. In February 1996, the Board approved a set of policy principles related to the CALFED Bay-Delta Program that included general principles on program funding and cost share allocation. In the spring of 1999, Metropolitan's Board held a series of workshops and Bay-Delta committee meetings to update these existing policies and consider a range of alternative courses of action toward protecting our State Water Project resources, securing needed Bay-Delta improvements, and ensuring equitable cost sharing. A summary of board-adopted financing and cost allocation principles is as follows:

- Ensure the CALFED finance plan provides a beneficial value and is agreeable to those parties expected to pay, commensurate with their proportional cost share;
- Support an equitable allocation of costs to reflect multiple beneficiaries when applicable;
- Ensure that CALFED takes actions to minimize costs while maximizing benefits in program areas;
- Establish a centralized process to properly track, manage and administer program funds;

- Ensure sufficient and stable funding for the CALFED Bay-Delta Program;
- Work with stakeholders and coalition partners to pursue state and federal CALFED authorization legislation;
- Support state and federal funding of the environmental and recreational costs associated with the Bay-Delta; and
- Ensure that funding and implementation of ecosystem and in-Delta actions are commensurate with funding and implementation of actions benefiting drinking water quality and supply reliability.

Proposed Refinements to Financing & Cost Allocation Principles. The following is a proposed set of refinements to board policy principles based on anticipated issues related to CALFED financing and implementation. The refined board policies are listed below in bold type followed by a short explanation of the proposed policy.

- **Beneficiaries should pay their fair share of costs for benefits received.** If the CALFED Program can increase water supply and water quality benefits, water users should be willing to financially contribute. Additionally, if recreational or other benefits are received from the CALFED Program, these beneficiary groups should also be willing to financially contribute.
- **Public funds should be used to generate broad public benefits.** Available state and federal grants, and any additional public funds, should be used by the CALFED Program to support existing and generate additional broad public benefits, including environmental enhancements and flood protection.
- **Program and project contributors' costs-sharing must be equitable and reflect beneficial value produced.** To secure broad support for the CALFED program, including the support of Southern California, CALFED must demonstrate that Stage 1 and long-term actions provide a beneficial value for those who will be asked to pay, commensurate with their proportional cost share.
- **Project and programs cost allocations should be based on cost-share agreements.** Payment criteria for a project (or package of projects) should be based on a cost-share agreement approach, not a complicated technical formula. Such agreements should be structured to offer potential participants the choice whether to participate with decisions based on sound economic principles. Each CALFED action has varying degrees of benefits for the parties expected to pay. Therefore, the allocation of costs involves an assessment of the available technical and financial analyses, social and political issues, and ultimately value judgments by the governing bodies.
- **Project and programs should reflect a balanced package of benefits and funding.** To broaden support for implementation, CALFED should advance and finance balanced packages. This will ensure that each constituency's success is directly linked to the success of other constituencies. Implementing packages will encourage urban and agricultural water users to fund other elements of the package, such as the Environmental Water Account, if a sound business case can be presented to governing boards regarding the overall benefits and costs of the package.
- **Entities that contribute to adverse environmental impacts should pay their fair share of mitigation costs.** If an entity contributes to environmental degradation as determined through regulatory or other processes, it should be held accountable and contribute toward environmental improvement actions as mitigation. Relevant considerations in the allocation of payments should include the timing and volume of water diverted and the extent of environmental impact.
- **Beneficiaries' contributions should be cost-based.** Cost share payments should not exceed the costs associated with the project (or package of projects). It is inappropriate to charge fees that subsidize other non-related programs.

- **Capital projects and programs should be prioritized.** The following criteria should be used to screen capital improvement projects included in the CALFED ROD. These criteria include: (1) long term cost-effectiveness/value; (2) broadest public benefit; (3) promoting regional solutions; (4) size of local cost share; and (5) the ability to fulfill contract obligations. Following the screening analysis, the remaining projects should be funded on a case-by-case basis using a cost-sharing agreement approach.
- **No cost shifting.** It is inequitable and inappropriate for urban water users to contribute more than their fair share of CALFED costs on the basis of assumed ability to pay or a generalized economic theory that higher costs will reduce water consumption. Urban water users are already paying higher costs and achieving extraordinary conservation results from a variety of demand-management programs. All water users in California have a constitutional obligation to conserve, and the state has various means to equitably ensure that all water users meet this obligation.

Policy

By Minute Item 41770, dated February 13, 1996, the Board (1) expressed support, if amended, for Senate Bill 900 (Costa), the Water Resources and Delta Restoration Act of 1996, consistent with the principles outlined in the General Manager's letter dated February 12, 1996, which revised the policy principles contained in his letter dated January 30, 1996; and (2) authorized the General Manager to pursue a consensus position among urban water users regarding SB 900 and seek support from agricultural and environmental interests for that consensus position.

By Minute Item 41850, dated April 9, 1996, the Board approved the proposed evaluation criteria to be used in providing Metropolitan's comments on CALFED's Bay-Delta alternatives scoping process as set forth in the General Manager's letter dated March 26, 1996.

By Minute Item 42164, dated November 19, 1996, the Board reviewed and approved the recommended principles to guide staff's actions related to the proposed Interim South Delta Program as set forth in the General Manager's letter dated November 5, 1996.

By Minute Item 43688, dated August 17, 1999, the Board adopted the Statement of Needs for the CALFED Bay-Delta Program as proposed and set forth in the General Manager's letter dated July 13, 1999.

By Minute Item 44811, dated March 12, 2002, the Board adopted the CEQA determination and the proposed policy principles for a CALFED Bay-Delta Program long-term governance structure.

By Minute Item 44874, dated May 14, 2002, the Board adopted the CEQA determination and authorized the Chief Executive Officer to work in support of the authors of CALFED reauthorization legislation and to pursue bipartisan support for final language in 2002 that included Metropolitan's interests as outlined in the letter and which does not include problematic provisions such as the Westland Water District's assurance language.

California Environmental Quality Act (CEQA)

CEQA determination for Option #1:

The proposed action is not defined as a project under CEQA because the proposed action involves continuing administrative activities such as general policy and procedure making (Section 15378(b)(2) of the State CEQA Guidelines). In addition, where it can be seen with certainty that there is no possibility that the proposed action in question may have a significant effect on the environment, the proposed action is not subject to CEQA (Section 15061(b)(3) of the State CEQA Guidelines).

CEQA determination for Option #2:

None required

Board Options/Fiscal Impact

Option #1

Adopt the CEQA determination and the refined Bay-Delta finance and cost allocation policy principles for communication with the California Bay-Delta Authority and interested parties.

Fiscal Impact: Board principles would clearly define Metropolitan's strategy for ensuring that costs are commensurate with benefits received from the Bay-Delta Program.

Option #2

Do not revise the existing finance and cost allocation policy principles.

Fiscal Impact: Unknown

Staff Recommendation

Option #1

 Stephen N. Arakawa Manager, Water Resource Management	4/16/2004 Date
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 Ronald R. Gastelum Chief Executive Officer	4/20/2004 Date
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