Funding Efforts in California

White Paper for the Water Policy Task Force

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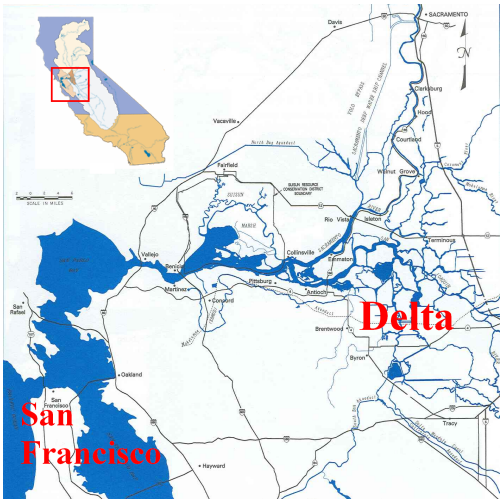
Summary

In 2002, an effort was initiated in California to develop a long-term finance plan for the CALFED Bay-Delta Program – a multibillion dollar process designed to address water supply, water quality, environmental, and other issues related to the San Francisco Bay / Sacramento-San Joaquin River Delta. This short summary provides a snap shot of some of the issues that arose during the CALFED finance planning efforts, and some possible applications and lessons for Nebraska.

The CALFED Bay-Delta Program

The CALFED Bay-Delta Program was organized in the 90's in response to combined pressures on the San Francisco Bay / Sacramento-San Joaquin River Delta system from drought, endangered species concerns, water quality issues, and water supply shortages. Water from the Bay-Delta provides drinking water for 22 million people and serves as a source of irrigation supply for 5 million acres, while also providing habitat for a wide variety of fish and wildlife, including endangered species. CALFED was designed to protect water supply reliability while improving the health of the Bay and Delta. A joint federal-state program including the collaboration of 25 separate agencies, CALFED is similar to the Platte Cooperative Agreement efforts in several respects. One of the primary advantages often identified with the CALFED Program is the fact that it provides a format for different interests to discuss and resolve issues rather than turning to lawsuits to settle disputes.



The Record of Decision (ROD) for CALFED was signed in 2000, and included a directive to develop a finance plan to guide expenditures for all Program activities. CALFED adopted a principle known as **"beneficiary pays"**, which calls for those who receive benefits to pay for the Program actions that produce their benefits. Early attempts to construct a finance plan became bogged down in the details of economic principles such as cost allocation methods and other technical issues, and senior CALFED officials established a 10-person technical group to organize a more straightforward approach to finance planning. One of the primary goals of the new finance effort was to provide information to the Legislature and Congress on the costs, benefits, and beneficiaries associated with different projects to help policy-makers justify expenditures for necessary CALFED projects.

What Worked Well

Many aspects of the new finance plan approach were well received and provided useful information for policy-makers within the CALFED Program.

- **Describing benefits** – while many benefits were difficult to quantify precisely, an attempt was made to describe benefits qualitatively using a common approach across projects that included a description of expected benefits, a judgment of the confidence that benefits would accrue, and a timeline necessary to realize the expected benefits. This approach provided a means to weigh project costs against project benefits even when benefits could not be completely described in economic terms. Encouraging discussions on benefits among stakeholders provided new insight on how projects function and helped show different groups how they might gain from investing in those actions.
- **Making information accessible** – the CALFED finance planning work produced an extensive inventory of potential and ongoing projects, their costs and benefits, and likely beneficiaries. By providing this framework, information that had already been developed through a wide variety of means was collected and organized in a common format that was accessible and understandable for policy-makers.
- **Suggesting funding sources** – part of the finance plan tasks included identifying potential funding sources for various projects, including general funds, user fees, revenue bonds, and other methods. Pay-as-you-go versus debt financing was considered, along with the advantages and disadvantages of different cost recovery techniques. This initiative was driven by the need for long-term, reliable funding for CALFED projects.
- **Realistic focus –** This common-sense approach recognized that some decisions must remain value judgments to be determined by policy-makers, while still using sound economic principles to better inform those decisions. This helped avoid some of the pitfalls associated with earlier, more theoretically-based efforts.
- **Common vocabulary –** over the first few years of CALFED implementation, several terms were commonly used that had different meanings to different people. The CALFED finance efforts worked to better define those terms to avoid confusion, facilitate finance discussions, and assist other policy activities.

What Problems Arose

In addition to the positive results that stemmed from the finance planning work, there were also some problems that arose.

- **Assigning costs to beneficiaries** – beyond suggesting who might benefit from project actions and attempting to identify the quantity and quality of those benefits, agency staff called for estimates to be made of how much different beneficiary groups should have to pay for those projects. Even though the beneficiary groups were broad in scope, several entities objected to staff and consultants assigning specific costs to beneficiaries. Several members of the finance team believed that the actual assignment of cost shares should be left to stakeholders and policy-makers, guided by the findings of the finance planning efforts.
- **Communicating recommendations to the Legislature** – the technical team compiled a comprehensive list of existing and potential projects, with the

understanding that fiscal and other constraints would prevent all of them from being implemented. Unfortunately, when the finance plan was presented to the Legislature, some members of the Legislature understood that staff was recommending that all projects that had been inventoried within the Finance Plan should be implemented. If all of the projects that had been inventoried were to be implemented, the cost would be extremely large. Based on this miscommunication, members of the Legislature responded that this was not a realistic recommendation, and as a result dismissed the Finance Plan as not feasible.

Implications for Nebraska and the Task Force

Several of the finance-related issues currently faced by Nebraska appear to mirror those encountered during the CALFED finance planning efforts. In addition, the funding and planning concept developed by Jay Rempe for the Task Force includes elements that seem to be compatible with some of the techniques used for CALFED.

- **Developing a Framework for costs, benefits, and beneficiaries** – the problems and needs related to water resources in Nebraska are complex and interconnected. In order to discuss and administer a salient response, policy makers must find a reasonable way to discuss the problems, potential solutions and the likely outcomes to policy actions. This discussion can be more productive if participants can speak a "common language". One way to do so is to construct an inventory of projects, their costs, expected potential benefits, and the nature of the potential benefits using a common approach. An effort to describe all of the relevant projects could help organize information from various sources, inform and involve stakeholders through funding discussions, provide Legislators with tools to justify expenditures and determine funding sources, and educate the "Omaha bus driver" as to how projects in other parts of the State could provide benefits to them. This process also appears to fit well with several components of Jay Rempe's proposal.
- **Identification of dedicated funding sources** – decisions on dedicated funding sources could also be assisted by clear discussions on comparable project benefits and by an organized approach at considering the advantages and disadvantages of various cost recovery methods.
- **Assigning costs to beneficiaries** – as indicated in the CALFED finance planning efforts, there are several advantages in including stakeholders and policy-makers in the process of determining how much beneficiaries should pay for project implementation. While consultants and agency staff can organize and present available benefit and cost information, as well as suggestions on funding mechanisms (bonds, fees, etc.), policy-makers and stakeholders will ultimately have to decide who will pay how much if a project is to be implemented.
- **Providing realistic funding requests –** legislators are likely to be more receptive to funding proposals if those proposals acknowledge fiscal realities and focus on high-priority projects. While initial financing efforts may want to consider a wider-array of projects, these projects should be prioritized before recommending implementation to the Legislature.