



California Water Plan: Update 2013 Plenary

MEETING SUMMARY

CALIFORNIA WATER PLAN: UPDATE 2013 PLENARY

FINANCE PLANNING:

PRINCIPLES FOR PRIORITIZING INVESTMENT AND APPORTIONING OF COSTS

SEPTEMBER 13, 2012 10:00 AM – 12:00 PM

DOUBLETREE HOTEL

2001 POINT WEST WAY, SAC., CA, 95815

Meeting Purpose:

Begin developing the principles and approach for prioritizing Update 2013 recommendations regarding the State's future investments and apportioning of costs. Meeting materials can be found here:

<http://www.waterplan.water.ca.gov/materials/index.cfm>

Panel Discussion Participants:

Dennis O'Connor, Principal Consultant, Senate Committee on Natural Resources and Water

Cindy Paulson, Executive Director, California Urban Water Agencies

Sue Sims, Executive Director, California Water Commission

Alf Brandt, Principal Consultant, CA State Assembly

Glenda Humiston, State Director of Rural Development, U.S. Department of Agriculture

Susan Tatayon, Associate Director, CA Water Program, The Nature Conservancy

William Edgar, President, Central Valley Flood Protection Board

David Bolland, Senior Regulatory Advocate, Association of California Water Agencies

Jennifer Clary, Water Policy Analyst, Clean Water Action

Welcome and Introductions

Paul Massera and Lisa Beutler led the welcome and introductions.

Overview and Framing of Topic

Paul Massera provided the overview and framing of the topic.

Panel Discussion

Resource-Dependent Values

Paul Massera described Discussion Question 1.

Discussion Question 1: What types of resource-dependent values do you advocate and how can they be expressed in terms of principles for prioritizing investment? Examples of resource-dependent values include: Biodiversity, public health, diverse portfolio of economic activity, sustainability of groundwater supplies and aquifers, relaxation and refreshment of mind and body, etc.



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Susan Tatayon: Most Americans find it difficult to prioritize resource-dependent values. They want it all. I would put biodiversity first, but public health and safety depend on the environment. Many of the resource-dependent values are linked. A healthy environment, can provide good public health, provide flood control, recharge basins, and provide good water quality.

Cindy Paulson: We'd love to have it all, but it's a matter of where to begin. Realistically, water supply reliability is at the top of our list, but we also value environmental stewardship and many agencies in California Urban Water Agencies (CUWA) look for opportunities for environmental enhancements beyond mitigation.

William Edgar: While I agree that all values are linked, public safety is number one because public safety and economic growth generate the funds to enhance and restore environmental values. If the public doesn't feel safe and healthy and the economy isn't strong, they can't focus on the environment.

Dennis O'Connor: The water bond a couple years ago is the most recent snapshot of what the Legislature values and it includes a little of everything, including desalination, IWM, ecosystem, surface storage, etc.

Dennis O'Connor: The co-equal goals of water supply and environmental stewardship are not an overarching strategy for the State. But it is specific to fixing our problems in the Delta. We tend to either like one of the co-equal goals more than the other or we dilute them both to mean everything in the world.

Communicating to the Public and Legislature

Alf Brandt: I agree that our highest priorities are water for people and the environment. But it's not our role as water professionals or the Legislature to identify top priorities. It's the responsibility of voters. Our top responsibility should be communicating with voters and getting on their radar that water is an issue. How do we communicate with voters that this is important? We achieved the flood bond because voters understood the threats from a Katrina-like flood and wanted to do something about it. We need to start with this conversation, but then take it to the voters who will, in turn, take it to the legislators.

David Bolland: We need to communicate with the broader public the importance of what we're trying to accomplish.

Dennis O'Connor: The Legislature will only act when the populace tells them it's time to act because water issues involve complex and uncomfortable conversations. Legislators are willing to do the work to educate themselves when the politics support it. But in the absence of that, there is a whole host of other issues that are occupying their attention.

William Edgar: Legislators will react, but we have a big job to get the message out to the public. For example, the public always underestimates their risk of flooding because they think "it's never flooded here in the past". The key thing that drives people to action is a potential increased in their insurance rates.

Disadvantaged Communities

Jennifer Clary: Yes, we want it all. But people who don't have a voice in the process, like disadvantaged communities, only get a little bit of the funding. The people who get the money from bond funding are those able to lobby for it. Low-income communities weren't really included in the 2009 bonds. The things that were ultimately funded weren't the right things and weren't funded in the right amounts. The bond



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was flawed and does not address the daily needs of many low-income communities. But these are the communities that need the funding the most.

Alf Brandt: The most recent bond wasn't created through a principled process. That's why IWM is important. Moving towards IWM and looking at the system holistically helps address the needs of disadvantaged communities because, in isolation, these communities lack the capitol to deal with many of their water issues individually.

The Need for the California Water Plan

Susan Tatayon: What is needed to communicate to the legislators is a robust and clear California Water Plan financing strategy that describes the benefits from past State funding and identifies what is underfunded.

Jennifer Clary: An objective California Water Plan that could identify priorities and sources of funding is critical. Otherwise, funding is set by the priorities of individual legislators.

Principles for Investment

Paul Massera introduced Discussion Question 2.

Discussion Question 2: What principles should be used to apportion State government investment throughout California and how can these principles guide investment with enough flexibility to address the high regional variability?

Sue Sims: We need to assess the true cost of water and sustainable resource management. Funding has historically subsidized systems, but now that money has become tighter, somebody needs go pick up that cost. That's a very difficult conversation to have that will be a huge challenge for all of us.

Susan Tatayon: A principle for regional flexibility should be cross-subsidies for communities that can't afford water but need it.

Cindy Paulson provided a handout that describes CUWA Principles for Reliable Water Financing (attached).

Multi-Benefit Projects and Beneficiary Pays

Glenda Humiston: We need to prioritize multi-benefit projects that provide more water for the state. In the Sierra Nevada, healthy forest ecosystems provide 5-20% more water than unhealthy ecosystems. Investing there would reduce fire danger, and produce biofuels and jobs. But we don't invest there because of a lack of local/regional funding. We don't have an intermediate structure for others to "own" and sell that increased water that would be produced so that we could fund the work in the first place.

Cindy Paulson: We need to think about how we can get regions to work cross-regionally. When it comes to specific projects, we need to identify specific beneficiaries and bring all of those people to the table to help fund projects.

Sue Sims: Prioritization generally suggests winners and losers, but the shift towards multi-benefit projects can create win-win solutions.



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Susan Tatayon: We need to move more towards multi-benefits approaches. One basic investment principle should be “getting the most bang for your buck”. The best way to do that is a multi-benefit approach that involves multiple constituencies. If we can come up with a different way of financing that emphasizes multiple benefits that would be fantastic.

David Bolland: The laboratory for multi-benefit approaches is at the local/regional level, not the State level. Individual districts are collaborating and establishing project priorities. The State can’t dictate that planning process, but can help inform that process.

The Need for Leveraging Federal and Private Funding

Glenda Humiston: The focus needs to be on leveraging and seeking those new opportunities for public/private financing. On leveraging, the State should help meet match requirements for federal funding. One of our greatest frustrations is that California never gets close to a full allocation of federal money. This is because the number of counties are a jurisdictional measure of funding criteria and all of California’s counties except for 15 are metropolitan. There are better opportunities for state, local, and federal partnerships. We also need to make sure the state and federal governments aren’t duplicating actions.

We need to develop a new way of financing activities. Budgets are being cut and we can’t just rely on government money for this. There are lots of opportunities to capitalize on new funding mechanisms and more public/private financing.

Bond Financing Principles

Dennis O’Connor: There were bond financing principles included in the “Report to the Conference Committee on Infrastructure Bonds: Recommendations for the Proposed Infrastructure Bonds” from the Senate Committee on Natural Resources and Water (attached). Some of these include:

- **State funds for state responsibilities.** State responsibilities include:
 - o **Enhancement of Public Trust Resources:** Enhancement denotes actions beyond those required under existing regulatory requirements.
 - o **Public health and safety:** The legislature has delegated this responsibility to cities, counties, and special districts. However, if a local government fails to meet this responsibility, it is the duty of the state to step in and correct the problem.)
 - o **Establish State Resources Goals and Remove Impediments to Achieving Those Goals:** Legislature sets resource goals and policies by enacting statutes and creating new programs. There may, however, be impediments to achieving the goals, such as lack of experience in working towards that goal, institutional conflicts, or fear of liability. Sometimes, but not always, bond funds may be used to aid in planning or first steps to help remove those impediments.
 - o **Establish and enforce rules of behavior:** While actually establishing and enforcing the rules of behavior rarely require the use of bond funds, occasionally bond funds are necessary to fund research or the completion of products necessary to support the establishment or enforcement of rules of behavior.
- **Subsidies should be avoided** (sends wrong signals and violates beneficiaries pays principle)
- **Bonds should aid in implementation of policy, not create policy:** The policy set in bonds is often static while water resources policy and solutions are constantly evolving. We should set the policy first, then determine if funds are needed.



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Alf Brandt: Proposition 13, Proposition 218, and **Proposition 226 (?)** all contain financing principles that are critical to how we apportion funds. We largely rely on a locally run water system. So defining what the State contributes is critical. But we also need financing principles for raising the money first before we worry about how we apportion it.

Glenda Humiston: Subsidies are a loaded term that are steeped in value judgments. Why do we call funding for agriculture that provides food and fiber a subsidy, but we fund roads that facilitate urban life and don't call it a subsidy?

Jennifer Clary: State dollars should be used to incentivize changes in behavior or pay for projects that couldn't otherwise be built. For example, Propositions 50 and 84 created money to incentivize IRWM and we are now creating many IRWM plans. But we should now ask the question whether IRWM is something that we still need to fund? It is not clear that this is the most efficient way to fund our priorities.

Public Pays for Public Benefits

David Bolland: One principle for investment is that the public needs to pay for public benefits. The public can pay for these benefits through taxes, but Proposition 218 is a barrier to raising these taxes. We need to make a tight connection between how much they pay in taxes and how the public benefits.

Dennis O'Connor: Legislature has struggled with general obligation bonds and how to fund public goods. SB 32 was most recent attempt and it would be good to read the final declarations there.

Dennis O'Connor: One financing principle is public dollars for public goods principle.

Cindy Paulson: Regarding a public goods charge for water, there is a lot of concern about taking money from local agencies and giving it to the State to redistribute it.

Dennis O'Connor: For a public goods charge, the question is "Where do you impose the charge?" We could remove the communal State pot idea and it could still work. But if you rely on local suppliers, there will be free-riders.

Jennifer Clary: The disparity between ratepayers in this state is extreme and unfair. Public goods charges are complex, but may be the best way to do it.

Concluding Thoughts

Cindy Paulson: It is important to be more inclusive in how we define beneficiaries. We should take a step back and ask what benefits stem from these projects. And get all the beneficiaries to the table and then figure out how we deal with free-riders. We also need to define public benefits more narrowly. We are currently grouping private and public benefits together and we end up getting a pot that is too big. We need to define beneficiaries in a more inclusive way and define public benefits in a more narrow way.

Dennis O'Connor: After working on water financing for 20 years, there aren't any easy answers. But just because it's hard doesn't mean we shouldn't try it. The questions we are facing aren't much different than the ones we faced back in 1996. The key issue is figuring out what is the State responsible for funding



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and what is the mechanism for raising those funds. Bonds are an unreliable financing mechanism at best and are not well suited for a lot of the things we're using the money for.

Apportioning of Costs

Paul Massera introduced Discussion Question 3.

Discussion Question 3: What principles should guide apportioning of costs between reducing legacy impacts and producing future public and private benefits? This question can also be phrased as "What is the appropriate role of public funding,"

Dennis O'Connor: Remediating legacy impacts is a public benefit (e.g., mercury). However, the law is undecided on this issue, especially for someone who followed all the past laws in good faith but discovered the negative consequences of their actions much later.

William Edgar: Our flood control system in the Central Valley is an example of a legacy impact. The flood control system was constructed, but we later found out that the levees leak. Is the State responsible for fixing this old flood control system? The Paterno Decision suggested that the State was responsible.

Glenda Humiston: It is tough to label what are legacy impacts and what are not. Nitrates are an example in which the effects don't necessarily show up for decades. The green revolution used pesticides and fertilizers and we're only now seeing the effects of that.

Jennifer Clary: UC Davis nitrate report shows that nitrates are both a legacy problem and a problem caused by current practices.

Susan Tatayon: Separating when we started accruing benefits versus when we are addressing the costs of legacy impacts is difficult.

Alf Brandt and William Edgar: Litigation isn't the best way to define legacy impacts.

Jennifer Clary: Practically speaking, the State government currently doesn't spend money on cleaning up legacy contamination. They create TMDL's and set standards, but they currently don't address legacy impacts.

Cindy Paulson: Another approach to determining "who's to blame" is to look forward. In other words, ask the people who use the systems to help address legacy impacts.

Glenda Humiston: A precautionary principle may be needed when thinking about legacy impacts. For example, once groundwater is contaminated by fracking, it can take decades to cleanup.