

FINANCING THE DELTA VISION¹

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Introduction

The Delta Vision Task Force is fulfilling a vital role in the world of California water, reshaping the core policy goals that must govern water management in California in the 21st century. Among the twelve linked recommendations of the task force, at the forefront is this fundamental principle:

“The Delta ecosystem and a reliable water supply system for California are the primary co-equal goals for sustainable management of the Delta.”

Simple common sense? Perhaps. But this insight will drive 21st century water policy in a very different direction than was typical of policies in the last century. Because the policies of the Task Force are highly consistent with the policy direction of the Association of California Water Agencies, ACWA finds itself a willing partner in trying to finance the Delta Vision – a task that will eventually require tens of billions of ratepayer and taxpayer dollars. This statement summarizes five simple principles that ACWA believes, if adhered to, will make it much easier to finance the Vision.

Principle 1: Create Value

The most fundamental principle of any financing strategy must be to create value for those who are expected to provide the funds. More to the point, the projects and management practices to be financed must create value *from the perspective of those providing the funds*. Value cannot be dictated by the state or other governmental entity. As straight-forward as this seems, this most fundamental principle was never observed by the CALFED process. CALFED consistently proposed fees on water users without any linkage to benefits that would accrue to those paying the fees. Water agencies perceived the certainty of substantial costs but had no confidence that the provision of funds would lead to the implementation of programs beneficial to water supply or water quality. Delta

¹ This statement is based on comments made before the Delta Vision Task Force on April 25, 2008.

Vision must create clear linkage between commitments to help finance the program and the implementation of actions that generate corresponding value. That brings us to Principle 1a).

Principle 1a: Change the Theory of Value

We must change the theory of value that has guided infrastructure investment decisions in the past. The central premise of Delta Vision is exactly right: what California water needs today is investments in *sustainability* – that is, we need a system that over the long term can meet the co-equal priorities of ecosystem health and water supply reliability. Today’s system cannot do so. California’s magnificent physical water management system has served the state economy well during the past half century. This system was designed and constructed in the middle of the last century largely by political leaders, engineers, and others, most of whom were born in the 19th century. Because environmental considerations were secondary at best in the middle of the 20th century, the back bone system we operate today is characterized by very high – and unnecessary – levels of conflict between economic and environmental objectives. The clash between these values in recent years has resulted in political and legal conflict, gridlock, and mutual deterioration in the state of both the economy and the environment.

The central policy goal today, as the Delta Vision recognizes, is to reduce this conflict by investing in a sustainable system. The standard of value in the past for the water industry has generally been the creation of more supply to justify an infrastructure or water management investment. That standard must yield in the future to reflect the enormous value of a sustainable system – one that can provide reliable supplies and a recovering environment far into the future. Similarly, some interests advocate reduced supply as an appropriate measure of value. Both perspectives are off-base. The real prize today is a sustainable system. This may or may not result in increased water supply. The point is that a sustainable system by itself justifies billions in expenditures.

Principle 2: Avoid Making Enemies

While unanimous support for a financial policy is beyond reach, the goal of the Task Force should be to recommend a financing approach that has the broadest support possible. This is more difficult when statements are made that appear to undermine the interests of those affected by the policy. Statements that suggest “There will be losers” or that we should use the public trust doctrine to modify an “archaic water rights system” do not generate support for a finance policy. “There will be losers” contrasts sharply with the CALFED mantra of “getting better together”. The fact is, on this count, CALFED is closer to right. Some interests may need to change their metric of success by accepting new policy solutions or by being compensated to mitigate unavoidable losses, but the policy goal should be to spread net, positive benefits as broadly as possible. Creating losers means creating entrenched political opposition and that should be avoided wherever possible.

Principle 3: Broaden the Financial Base

As Delta Vision clearly recognizes, a long-term vision for the Delta includes not only consideration of water supply and the aquatic environment, but must consider highways, railways, energy use, agriculture and other economic sectors that also benefit from a sustainable Delta. All of these value centers should play an appropriate part in the overall finance plan.

Principle 4: Avoid Another Academic Debate

A finance plan cannot be developed in the abstract. California has engaged in numerous academic discussions of the concept of beneficiaries pay during the past 15 years and none of those debates has advanced the issue. ACWA believes that a finance plan must be founded on specifics. We must be very specific about what actions and assets we seek to pay for, clearly identify the types of value that will result, gather together the stakeholders who may benefit from the program, and seek agreement among them. Recent negotiations regarding a possible water bond have illustrated the efficacy of such an approach. While a final bond still eludes us, there has been much progress on shaping a coherent financial framework. Notably, bond negotiations have to be quite specific

about what the public will pay for. Within that framework, there is broad agreement on a number of important features of a finance program: the public will pay up to half of the costs of local resource development to encourage more supply from these sources; water contractors will pay all of the construction and mitigation costs of a Delta facility; the public will pay for environmental habitat improvements; and the public will pay for public benefits from storage investments with the remainder paid by water users with an open public process to distinguish between public and private benefits. While there is still much devil-in-the-details, this represents considerable progress on establishing a realistic framework for financing billions in public works, progress made possible at least in part because the discussion avoided academic entanglements.

Principle 5: Rely on Collaborative Agreements

Finally, ACWA's fifth principle is a unifying principle that borrows from all of the above: to the maximum extent possible, the finance plan for Delta Vision should rely on collaborative processes and contracts. As a corollary principle, we should rely on market incentives wherever possible instead of command and control approaches. The State Water Contracts are one example of a contractual approach through which billions of dollars have been raised for water supply infrastructure on a voluntary basis. Currently, the Bay-Delta Conservation Plan is a highly promising process that could similarly provide substantial sums to implement the Delta Vision. The BDCP is a legally driven permit process. It is intended to result in the implementation of a conservation strategy to restore fisheries and habitat and to provide 50 year regulatory coverage for an improved SWP/CVP conveyance system in the Delta. BDCP intends to implement a Habitat Conservation Plan/Natural Communities Conservation Plan (HCP/NCCP) to meet the requirements of the federal and state Endangered Species Acts. Such plans require the mutual consent of the regulated entities and the federal and state governments and further require assured funding to implement the conservation strategy. As such, BDCP provides an ideal forum for funding much of the Delta Vision. ACWA strongly recommends that Delta Vision and BDCP maintain very close communication and coordination.