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The Delta Vision Foundation was established by former members of the Delta Vision Blue Ribbon Task Force, the independent body convened under Governor's Executive Order S-17-06. The mission of the Delta Vision Foundation is to encourage implementation and progress by the State of California toward achieving the Two Co-Equal Goals as defined in the *Delta Vision Strategic Plan*:

Restore the Delta Ecosystem
Ensure Water Supply Reliability

The Delta Vision Foundation monitors, evaluates, and provides information to government officials, policymakers, and the public about implementing the *Delta Vision Strategic Plan* recommendations as a set of integrated and linked actions.

June 13, 2012

Delta Stewardship Council
980 Ninth Street, Suite 1500
Sacramento, CA 95814

Re: *Final Staff Draft Delta Plan*

Dear Chairman Isenberg and Members of the Council:

The *Final Staff Draft Delta Plan* is a thorough and succinct description of the immense challenges in the Delta. The *Delta Plan* continues to improve through each iteration. The document provides good history and context for all parties to understand the complex problems and interactions that have defied solutions for decades. The staff has made considerable effort to comply with the legal requirements for the *Delta Plan*, address comments, and develop policies and recommendations.

The following comments provide recommendations for further improvement of the *Delta Plan* such that it articulates a clear vision, concise goals and objectives, linked strategies and actions, and effective performance management. Overall, the *Delta Plan* could be improved with a summary narrative that synthesizes the information provided in the individual chapters in the following areas:

- Define or describe the Two Co-Equal Goals and Delta as Place sufficiently to set direction for action by the State and others over the next 20 to 30 years.
- Describe the linked and integrated actions the State and others must implement to achieve the Two Co-Equal Goals, while protecting and enhancing the Delta.
- Describe how the State will measure progress towards the Two Co-Equal Goals and adapt actions to correct course towards the goals.
- Set priorities for immediate and near-term actions to advance the Two Co-Equal Goals, particularly related to Delta levees and through-Delta conveyance.
- Describe the costs and necessary funding and financing mechanisms for near-term and interim actions.

The following comments focus on four areas of the *Delta Plan*:

- Vision, Goals, and Objectives
- Near-term Actions
- Performance Measures and Targets
- Funding Principles

Vision, Goals, and Objectives

The overall vision, goals, and objectives of the *Delta Plan* are not clearly and succinctly stated in a way the readers can understand where the State needs to go and how it will get there. Although each chapter includes a narrative description of what the Delta Stewardship Council (Council) envisions in the future, there is not an overall vision of how these topic areas will be linked and integrated.

For example, the description of a future water management system that is operated to achieve both of the Two Co-Equal Goals is buried in Chapter 3. The State can achieve both goals by reducing diversions in dry years to protect and enhance the ecosystem and increasing diversions in wet years to meet the economic needs of the State. However, the Chapter 4 goals do not discuss the importance of increasing flows for fish during dry years or managing the water system such that it is more compatible with ecosystem needs, particularly in dry years.

The following are other examples where similar integration could be described as part of the vision of a Delta solution:

- Protecting Delta land uses, the Delta ecosystem, and critical infrastructure, including water supply, through levee improvements.
- Reducing contaminants, improving fish habitat as well as water supply reliability (resulting in reduced need for flushing flows).
- Improving more natural flows in the Delta and tributaries by restoring floodplains and habitats, which could also reduce flood storage needs and increase water supply reliability.

The Executive Summary is the appropriate place to describe the overall vision, goals, and objectives for the Delta. As currently written, the Executive Summary is simply an abbreviated version of Chapter 1. The important vision narratives included in several chapters are not brought forward and presented in a single, concise description. The goals and objectives described in several chapters are also not brought forward to the Executive Summary. Of particular note, the definitions of the Two Co-Equal Goals and the Delta as Place objective remain buried in the document, except for the broad generalizations included in “Lessons from the Delta Plan Process.”

The goals, subgoals, and strategies in each chapter should be written in a more consistent structure and format to increase clarity and accountability. For example, the “Water Supply Reliability” goal (page 68) describes the subgoals of water supply reliability and how they would be achieved. However, the “Ecosystem Restoration” goal (page 120) describes an overall goal, without subgoals, with example projects to help define the terms protection, restoration, and enhancement. The “Delta as Place” objective includes some narrative that might characterize the phrase, but little definition of the objective. Other chapters include a narrative vision and discuss challenges but lack clear goals and objectives that would set an overall direction that could guide strategies, actions, and performance measures.

Furthermore, the *Delta Plan* should more specifically acknowledge important linkages of goals and objectives across chapters. This could be accomplished with a specific section in each chapter (similar to how Chapter 4 addresses water quality). In Chapter 3, there is only limited reference to the vulnerability of water supply reliability to levee failures. Policies could also link objectives more effectively. Chapter 4 includes a policy to implement habitat restoration as part of levee projects, where feasible. Likewise, Chapter 3 could include a policy that requires environmental flow benefits for any “‘proposed action’ to export water from, transfer water through, or use water in the Delta.” These benefits could be achieved by managing the volume, timing, rate, frequency, duration, and location of water management actions.

With refinement and consistency in each chapter, the vision, goals, subgoals, objectives, and strategies would describe a clear and compelling case for action in each area. A consolidated, integrated description of the overall vision, goals, objectives, and strategies in the Executive Summary would establish the State's direction and demonstrate how multi-purpose programs can maximize benefits. The *Delta Plan* astutely acknowledges that "All of this will involve tradeoffs, between competing—in some cases mutually exclusive—values, goals, and objectives." With improved framing of the vision, goals, objectives, and strategies, the Governor, Legislature, State agencies, Federal agencies, local government, and others will have the guidance to act toward common goals.

Near-term Actions

In spite of bold statements in the Executive Summary about early actions ("Act Now and Invest Sustainably"), the *Delta Plan* lacks any clear direction on near-term actions that can improve conditions now. The specific actions that can and should occur in the next five years should be listed and recommended to responsible agencies, with timelines. There are no near-term water supply reliability actions or pilot studies recommended—all actions are plans and studies.

In ecosystem restoration, there are five general areas identified for habitat restoration, but no targets, deadlines, or pilot projects identified. Chapter 7 does not include any specific near-term project recommendations to reduce risk to people, property, or state interests in the Delta. In fact, actions to improve Delta conditions in these three core problem areas have been stalled for more than 10 years, with the exception of improved levee maintenance. Physical and non-physical barriers, fish screen improvements, channel dredging, modified operations, seismic protection, and other projects and pilot programs should be identified and accelerated through the *Delta Plan*.

The Delta Reform Act directed the Delta Stewardship Council to develop levee investment priorities, which should be complete by now. The Council should take a leadership role in accelerating implementation, rather than deferring action until after another three-year planning process. The *2012 Delta Vision Report Card* recommended a framework for planning Delta improvements—a Strategic Levee System—that can consolidate and streamline implementation with the appropriate leadership. This recommendation, and the other priority recommendations from the *2012 Delta Vision Report Card*, should be incorporated into the *Delta Plan* (see the attached Executive Summary).

Performance Measures and Targets

As noted above, the *Delta Plan* needs to include clearer descriptions and integration of the vision, goals, subgoals, objectives, and strategies to form a cohesive plan, consistent with the Delta Reform Act. Likewise, the *Delta Plan* lacks sufficient definition and clarity of performance measures, targets, and methods as required by the Delta Reform Act (Water Code Sections 85211 and 85308 (b) and (d)). In fact, Table 2-2, Water Code Objectives for the *Delta Plan*, is replete with legislative direction to develop goals, subgoals, measures, targets, and methods to implement an effective performance management structure for the Delta. Unfortunately, it appears that the *Delta Plan* continues to focus heavily on the Council's oversight function at the exclusion of the planning and performance measurement function. For example, Figure 2-1, Council Roles and the *Delta Plan*, does not mention objectives, performance measures, or targets, which are critical elements of the Council's accountability role.

The Delta Vision Foundation is encouraged that the *Final Staff Draft Delta Plan* increases emphasis on the Interagency Implementation Committee to increase coordination. The *Delta Plan* acknowledges the monitoring function of this committee. However, performance accountability for outputs and outcomes should be specifically linked to the functions of the Committee. Further, the short paragraph

under “Monitoring Progress toward Achieving the Coequal Goals” (page 48) should be expanded to describe a robust performance management and accountability strategy for implementation and results. This strategy should include how and when the Council will finalize performance measures and targets, the methods the Council will use to measure progress, current gaps in necessary data collection and monitoring and how the gaps will be addressed, reporting methods and timing, and public review.

The following are specific recommendations on the performance measures described in the *Delta Plan*:

- Add a performance measure and targets related to water storage.
- Add a performance measure that reports on the proposed predictability index.
- Establish targets for habitat restoration, at least in the near-term.
- Develop an improved definition, with objectives and targets, for “more natural functional flow patterns”—best available science says it is a problem, but what is the problem and what direction should the State be headed to solve the problem?
- Consider performance measures and targets for predation and for hatcheries.
- Add a performance measure and targets for economic output of the Delta region.

Funding Principles

Unfortunately, after extensive discussion of funding and finance at the Council’s workshop in September 2011 and at Council meetings through fall 2011, Chapter 8 of the *Final Staff Draft Delta Plan* is a disappointing step backward from Chapter 9 of the *Fifth Staff Draft Delta Plan*. Chapter 8 provides no new information and only a weak statement of next steps.

In fall 2011, stakeholders and Councilmembers noted the need to identify anticipated program costs and begin considering how those costs might be allocated to beneficiaries. In addition, the Delta Vision Foundation conducted a stakeholder workshop and prepared written comments to the Council (October 26, 2011). The comments specifically recommended the following (comments attached):

Define Terminology – The issue of funding and financing is fraught with terminology that is frequently misinterpreted or used with differing meanings among agencies and stakeholders. The *Delta Plan* should define terminology to promote constructive discussion.

Describe Plans and Activities for Funding – The *Delta Plan* does not include defined actions to be implemented to achieve the Two Co-Equal Goals (either near-term or long-term). Any realistic discussion of funding and financing must discuss real actions planned for the next 20 years.

Estimate Costs – Realistic discussion of how to pay for plans and activities must include estimates of implementation costs. These costs should include all implementation activities, not just planning, oversight, and Delta science.

Adopt Guiding Principles – The *Delta Plan* should prepare specific guiding principles for adoption by the Council and recommendation to the Governor and Legislature. The current guiding principles are not structured effectively to guide future decision-making and are missing important principles related to accountability, efficiency, priorities, and linkages. See the recommended guiding principles attached.

These comments remain true for the *Final Staff Draft Delta Plan*. Apparently, little or no work has been done on the chapter since the *Fifth Staff Draft Delta Plan*.

Furthermore, Chapter 8 should include a more detailed discussion of how funding and cost allocation among the Federal Government, the State, and local government typically work for the various

elements of the *Delta Plan*. The broad statements about general obligation bonds and revenue bonds do not sufficiently inform the discussion of future funding approaches. That is, what are the respective funding and regulatory responsibilities for planning, implementation, and oversight for the following?

- Water supply reliability
- Ecosystem restoration
- Water quality
- Emergency management
- Flood protection
- Economic development
- Transportation
- Energy resources and transmission

What have been the historical cost shares for these activities? How are they different for each element of the *Delta Plan*? How are these historical approaches expected to change in the future? This information would establish an important foundation for constructive discussion of the appropriate funding and financing models, building on what has worked.

Incorporating these recommendations into the *Delta Plan* will provide further clarity of purpose and intent, support proactive action to achieve the Two Co-Equal Goals, and reinforce the critical linkages among goals, policies, and actions.

Please contact Charles Gardiner if you have any questions or additional needs.

Sincerely,



Sunne Wright McPeak
President, Delta Vision Foundation
Former Secretary, California Business, Transportation,
and Housing Agency



Charles L. Gardiner
Executive Director

Attachments:

- 2012 Delta Vision Report Card, Executive Summary
- Summary of Comments, Delta Stewardship Council, Draft Delta Plan Chapter 9

Cc: Joe Grindstaff, Delta Stewardship Council
DVF Board of Directors

2012 Delta Vision Report Card

Assessment of Progress to Implement the Delta Vision Strategic Plan				
Report Card Category	2011 Grade	2011 Comments	2012 Grade	2012 Comments
Progress: Implementation of the <i>Delta Vision Strategic Plan</i>				
Near-Term Actions	D	Inadequate progress to address urgent risks to Delta. Immediate action needed on Delta emergency preparedness, strategic levee system, improved through-Delta conveyance, and enhanced ecosystem.	D-	Continued lack of action to address urgent risks and immediate ecosystem needs. Few processes in place to focus action and decision-making.
Governance	B+	New governance approved, but funding and financing not fully addressed.	B-	Strong commitment and effort, but inadequate coordination. Funding and goal-setting have stalled.
Ecosystem Restoration and Recovery	C-	Planning underway, but little implementation.	C	Biological goals and objectives advanced and pilot projects initiated, but little project implementation.
Delta Vitality and Security	C-	Little action taken to support local economies and protect infrastructure in and crossing the Delta.	C	Continued levee maintenance improves conditions, better understanding of economic needs, but no defined investment strategy.
Water Supply Reliability	D+	Incomplete planning and little implementation.	C-	CVP/SWP inertia, water use efficiency regulations, and reservoir operations improve conditions, but storage progress inadequate.
Citizenship: Leadership, Effectiveness, and Cooperation				
State, Federal Agencies and Stakeholders	B	Good effort and engagement to address the Two Co-Equal Goals. Stronger leadership, coordination, and alignment needed from State and Federal agencies and stakeholders.	C	Solid effort in all areas to advance planning, but not doing enough and not doing it fast enough. Implementation capacity needed.
Results: Two Co-Equal Goals				
Efforts to reduce risks for the ecosystem and water supply reliability	D	Delta ecosystem and water supply reliability remain in critical condition. No significant action to reduce risks.	D-	Nothing accomplished to reverse years of neglect. Conditions remain urgent. Incomplete definition of goals.
Status of the Two Co-Equal Goals: Low, Moderate, High, Very High, Critical, Extreme				
Delta Ecosystem Restoration		Critical		Critical
Water Supply Reliability		Critical		Critical

2012 Delta Vision Report Card

Executive Summary

Introduction and Background

The *2012 Delta Vision Report Card* assesses the status of the Delta and water supply reliability and the progress and effectiveness of State agencies and appointed governing bodies, Federal agencies, and other organizations in implementing the actions recommended in the *Delta Vision Strategic Plan*. The *Report Card* provides a broad assessment of actions and organizations so that elected officials, agency executives and staff, and stakeholders and the public can understand the opportunities and barriers for achieving the Two Co-Equal Goals. It is based on information gathered from elected officials' staff, agency executives and staff, stakeholders, and the public. The *Report Card* also includes recommendations for action and improvement to accelerate implementation and ensure that strategies and actions are comprehensive, coordinated, and integrated.

The Delta Vision Foundation assessed three aspects of efforts to implement the *Delta Vision Strategic Plan* and achieve the Two Co-Equal Goals:

Actions Progress – For each of the 85 actions recommended in the *Delta Vision Strategic Plan*.

Leadership, Effectiveness and Cooperation – Of the State, Federal agencies, and stakeholders and other interested parties.

Status of the Two Co-Equal Goals – To reduce risks for the ecosystem and water supply reliability.

Urgent Action Needed—Near-term Actions Stalled

The status of the Two Co-Equal Goals remains critical. The ecosystem remains at critical risk of losing species and habitat in the Delta. Water supply reliability remains at critical risk of supply disruption or shortages. Since the *Delta Vision Strategic Plan* was issued in 2008, there have been few significant actions implemented that reduce these risks and advance the Two Co-Equal Goals. Implementation of near-term actions has stalled, in part due to attention on long-term planning.

Leadership, Integration, and Action Essential

State agencies, federal agencies, and stakeholders continue to work earnestly to plan and implement the legislative requirements. However, the Delta Vision Foundation finds that additional leadership and direction is needed at all levels to ensure that planning and actions are linked and integrated through policies, commitments, assurances, and requirements.

The Delta Vision Foundation *2012 Delta Vision Report Card* assessment underscores the urgency for action and implementation. This sense of urgency needs to be re-energized by the State of California Administration and Legislature. The progress of and accountability for implementation has been inadequate, particularly for the near-term actions identified in the *Delta Vision Strategic Plan* to protect and secure the existing water supply infrastructure, prepare for emergency response in the Delta, and begin ecosystem improvements.

Delta Vision Foundation

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- (1) Restore the Delta Ecosystem
- (2) Ensure Water Supply Reliability

The Delta Vision Foundation monitors, evaluates, and provides information to government officials, policymakers, and the public about implementing the *Delta Vision Strategic Plan* recommendations as a set of integrated and linked actions.

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Staff

Charles Gardiner, Executive Director
Rita Holder, Policy Research Associate
Julie Dixon, Resource Media, Media Relations and Communications

www.deltavisionfoundation.org

Implementation Progress

Overall, the 85 actions recommended in the *Delta Vision Strategic Plan* are 28% complete. This is a slight improvement compared with the 25% complete reported in the *2011 Delta Vision Report Card*.

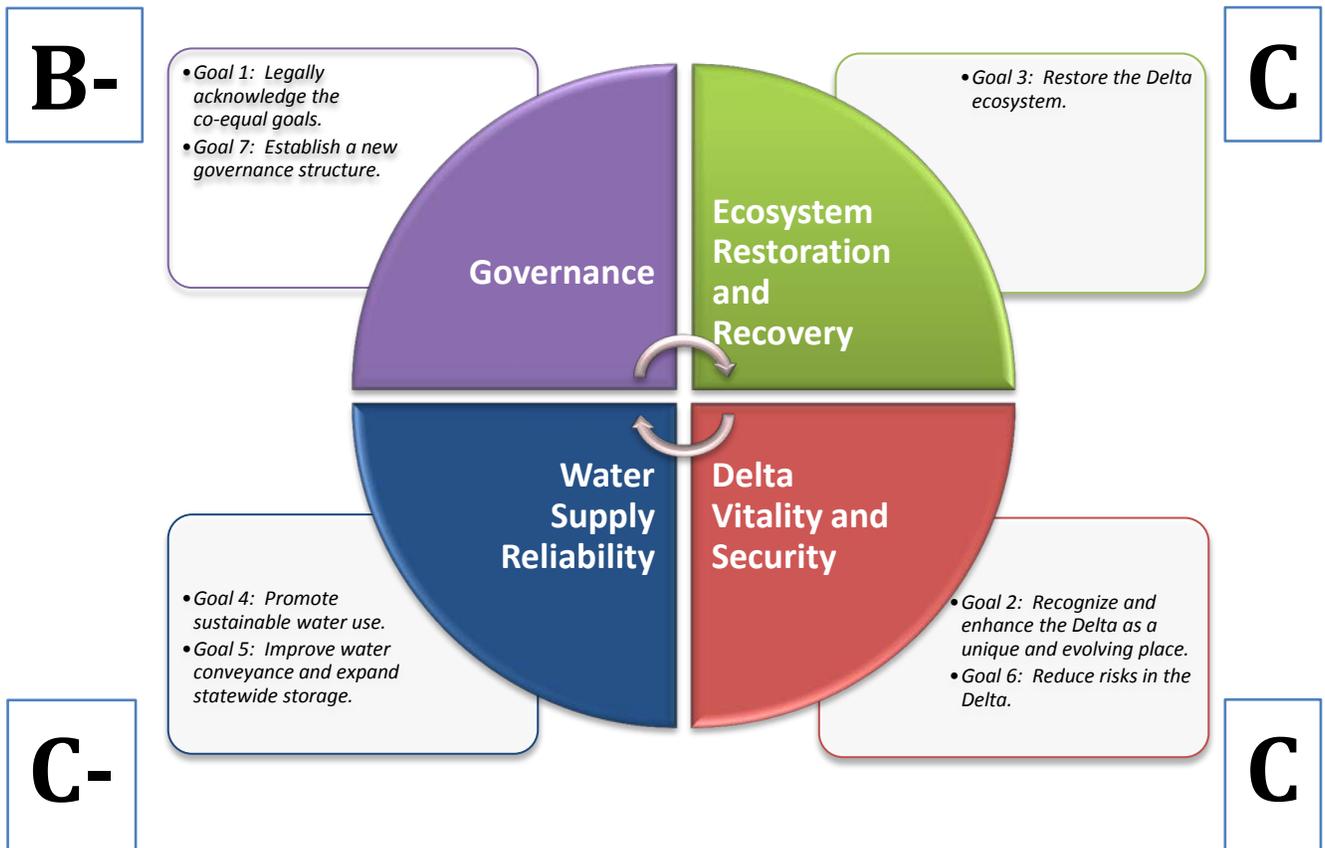


Near-Term Actions

D- There is a continued lack of action to address near-term Delta risks and ecosystem restoration. The progress on near-term actions continues to be entirely inadequate, particularly related to securing the existing water supply infrastructure, and beginning ecosystem improvements. There has been some action to improve emergency response planning and readiness, but those efforts have not addressed potential catastrophic flooding of Delta islands from multi-island levee failures caused by an earthquake or major flood event.

Mid-term and Long-term Actions

New governance structures have been established and additional planning is underway, but implementation is lagging in all areas. The Governance grade declined from a B+ in 2011 due to ongoing inactions to provide funding for critical activities and set clear performance objectives. Grades for Ecosystem Restoration and Recovery and Delta Vitality and Security increased from C- for both elements in 2011. The Water Supply Reliability grade increased from a D+ in 2011. These increases recognize the significant effort to advance plans and policy making in all areas. However, few actions have actually been implemented to improve conditions in these areas.



Leadership, Effectiveness and Cooperation

State of California

The 2012 Delta Vision Report Card evaluates implementing agencies for their leadership, strategic direction, coordination, results, and accountability.

<i>Organization</i>	<i>2011</i>	<i>2012</i>	<i>Comments</i>
Legislature	B+	C-	Some oversight of Delta actions established. Continued failure to address near- and long-term funding needs for implementing agencies.
Governor's Administration	B+	C-	Strong, but significantly delayed, leadership appointments. No defined vision or strategy to link actions, develop workable programs, and secure funding.
Delta Stewardship Council	B+	B-	Strong leadership and good transparent process. Delta Plan has improved, but insufficient demonstration of objectives and how the State can link actions to achieve the Two Co-Equal Goals and measure progress.
Natural Resources Agency	B+	C	Increased outreach and transparency. Decision-making approach lacks responsiveness. Inadequate coordination of linked actions to develop a workable solution. Lack of focus on near-term actions.
Department of Water Resources	B-	C	Improved emergency preparedness and levee maintenance. Consumed by BDCP planning at the expense of critical near-term investments in Delta levees and conveyance improvements.
Department of Fish and Game	C+	B-	New leadership with refocused resources and mission to address Delta. Good coordination of ecosystem restoration planning. Needs continued leadership and management to drive implementation.
Sacramento-San Joaquin Delta Conservancy	B+	A-	Solid leadership and effective engagement on strategic plan and developing partnerships with others. Needs near-term projects and performance measures to demonstrate success.
Delta Protection Commission	B+	B+	Good representation of Delta interests. Sound research and analysis of economic issues and objectives. Needs to coordinate with others to achieve multiple benefits.
State Water Resources Control Board	B	A-	Has initiated strategic plan and substantive reorganization to address Delta issues and accelerate planning, regulatory, and enforcement efforts. Has clear performance reporting, but needs to improve outcome-based performance measures.
Central Valley Regional Water Quality Control Board	-	A-	Capable leadership with balanced approach to water quality planning, management, and regulation. Solid science foundation for decision-making and good collaboration for developing solutions.
California Water Commission	B	B	Valuable input and guidance to shape and improve DWR actions and regulations. Needs to develop clearer purpose and action on water storage, levees, and the SWP.
Emergency Management Agency	-	B-	Effective coordination of Delta Emergency Management Task Force. Needs to strengthen leadership and partnerships to address catastrophic failure and mitigation.
Science Programs	B	B+	Strong foundation for coordination, independent reviews, and policy guidance. Need to expand attention on engineering and economics, create science plan and performance measures, and synthesize science efforts.

2012 Delta Vision Report Card

As with the *2011 Delta Vision Report Card*, the Delta Vision Foundation (DVF) recognizes and acknowledges the State's dedicated and sincere effort to implement the *Delta Vision Strategic Plan*. Across all agencies, managers and staff are working diligently to identify and implement the means to achieve the Two Co-Equal Goals, while protecting and enhancing the Delta as an evolving place. The *2012 Delta Vision Report Card* gives credit for the effort demonstrated over the past three years. However, the continued urgency of conditions in the Delta and precarious statewide water supply stability demand action. Accordingly, the State must demonstrate more leadership, action, and implementation in the immediate future. Action depends on clear purpose, strategies, coordination, decisions, measurement, and results.

Federal Cooperation

The Federal agencies have improved coordination among the Federal agencies and with the State Administration. The Memorandum of Understanding, Federal Action Plan, and Near-term Science Strategy provide a solid foundation for continued improvement and leadership. Federal agency focus and attention has centered primarily on support and decision-making for the BDCP process and work implementing the Biological Opinions for operating the Central Valley Project. Federal agencies need better decision processes to address incomplete and uncertain science.

C

Stakeholder Cooperation

Cooperation and coordination among stakeholders remains critical for developing and implementing workable solutions that meet multiple objectives. The lack of constructive dialogue among stakeholders on major policies, identified in 2011, continues in 2012. The continued repetition of the same positions and proposals—more water versus less water from the Delta; big, little, or no isolated conveyance; and local versus state decision-making about Delta levees and land use—has only served to delay action and continue the unsustainable use of the Delta. Stakeholder leadership and cooperation can lead improvement. Stakeholders initiated and gained funding for professional facilitation of discussions of “Delta projects we can all agree on.” Leaders from all stakeholder communities must stand up, identify near-term actions and workable long-term solutions that achieve multiple benefits, and work with other interests to get them done.

B-

Essential Leadership

In 2011, DVF pointed to the urgency for action and the critical importance of leadership. In 2012, the need for action and leadership remains urgent. Strong and decisive agency and organizational leadership is needed at all levels to ensure both decisiveness and coordination among actions, even if other organizations implement them. In the *2011 Delta Vision Report Card*, DVF highlighted critical leadership needs for the Governor, Legislature, State agencies, Federal agencies, and stakeholders. There has been improvement in leadership and coordination in all agencies, which has increased knowledge and understanding. However, the leadership in all sectors has not effectively articulated workable projects and programs nor implemented actions that address the Two Co-Equal Goals and reduce the risk of failure.

The BDCP program has not fashioned a workable program that links actions through commitments and assurances. The Delta Plan has improved, but does not yet describe a long-term vision and plan that builds on the *Delta Vision Strategic Plan* and inspires coordination, collaboration, and commitment. The *Delta Economic Sustainability Plan* provides sound economic information and analysis, but is based on the premise that the Two Co-Equal Goals and Delta protection and enhancement are mutually exclusive.

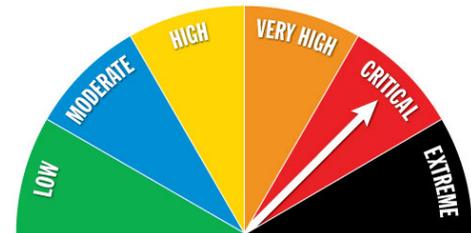
In spite of these examples, the *2012 Delta Vision Report Card* describes reason for optimism. Leaders and staff across all organizations are working earnestly and with the best intentions to make positive contributions. This effort must now produce action and results.

Status of the Two Co-Equal Goals

The Delta Vision Foundation 2012 *Delta Vision Report Card* assessment of the status of the Two Co-Equal Goals describes the risk that substantial, undesirable outcomes could occur for California. It is based on the observations and perspectives provided by the people who provided input to the Delta Vision Foundation.

Delta Ecosystem

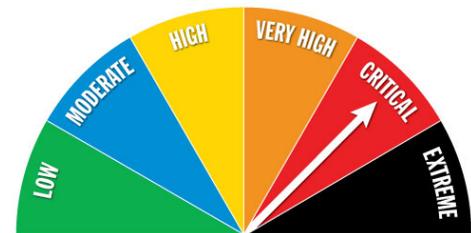
The Delta ecosystem remains at critical risk of failure. Since the 2008 Delta Vision Strategic Plan and 2009 implementing legislation there has been substantial progress in developing plans such as the *Delta Plan*, *Delta Economic Sustainability Plan*, *Delta Conservancy Strategic Plan*, *Central Valley Flood Protection Plan*, and administrative draft *Bay-Delta Conservation Plan*. While effort and attention on the Two Co-Equal Goals and plans to achieve them is commendable, there have been few “on-the-ground” changes to protect and restore the Delta ecosystem.



The scope and scale of necessary actions to restore and recover a functioning ecosystem in the Delta is substantial. Native fish populations have shown recent signs of improvement, possibly because of wet weather and pumping restrictions. Several pilot water operations projects have been implemented to test hypotheses, but additional pilot projects, with monitoring and performance evaluation, are needed immediately. The State Administration, along with Federal agencies and non-governmental organizations, and in coordination with local landowners, must develop an implementation focus to accelerate habitat restoration and demonstrate measurable improvements in ecosystem function.

Water Supply Reliability

Water supply reliability statewide also remains at critical risk of failure. The 2011 water year was wet and 2012 was dry until late season rain improved the outlook. These two years together demonstrate the inadequacy of California water management and infrastructure. In 2011, there was more water available than could be stored for future use. In 2012, water users were faced with substantial cutbacks, just a year after all the reservoirs filled. In spite of decades of recognition that California water infrastructure is inadequate to meet the needs of families, fish, farms, and factories, few significant actions have improved the long-term reliability of water supplies from the Delta.



The complexity and challenge of increasing flexibility and security in the state water supply system is daunting. This year, the Bureau of Reclamation completed the long-planned Intertie Project between the SWP and CVP, adding some flexibility to export water operations. The Department of Water Resources implemented new state guidelines and regulations for water use efficiency. Over time, these actions will help improve water supply reliability, but immediate action is still needed to improve drought contingency planning, streamline water transfer procedures, and implement other immediate-term water management actions. Design, implementation, and testing of through-Delta conveyance improvements have stalled and storage studies have moved to the back burner. Concerted, focused action is needed to finalize and implement these interim actions. At the same time, long-term conveyance and storage studies must be integrated to identify workable solutions that increase water availability and storage for people and the economy in wet years and leave water in the Delta and its tributaries for fish and habitat in dry years. Regional water management planning and implementation must continue as a collaborative effort between the State and local government because it has proven to be the most effective means for developing water supply flexibility.

Linkages

The *Delta Vision Strategic Plan* described a comprehensive set of integrated and linked goals, strategies, and actions to achieve the Two Co-Equal Goals. Many of the actions will take decades to implement, but to be successful, the State, Federal agencies, water users, and stakeholders must advance the Two Co-Equal Goals by maintaining the linkages among actions in planning and implementation, now and in the future.

The urgency for decisions on specific components of the solution, continued litigation about current operations, and ongoing positional advocacy are taking precedence over the near-term actions and linked, integrated approaches that will actually solve problems, improve conditions, and build capacity for long-term success. Delta levee improvements are not planned and implemented to protect both local resources and critical statewide infrastructure. Development of Delta flow objectives, the Bay-Delta Conservation Plan, and the Delta Plan is coordinated, but integration and linkages are not developed. Storage and conveyance plans are not integrated and linked to develop the most effective and efficient infrastructure. Near-term actions to advance the Two Co-Equal Goals are largely ignored, rather than implemented in a way that links to and supports long-term solutions. Plans and policies are not effectively linked to performance, monitoring, and accountability. Success in these and other areas is impossible without leadership from the Governor and Legislature to provide near-term and long-term funding to balance public benefits and beneficiary pays.

Conclusions and Recommendations

The *Delta Vision Strategic Plan* recommended a comprehensive set of integrated and linked actions to achieve the Two Co-Equal Goals: (1) Restore the Delta Ecosystem; and (2) Ensure Water Supply Reliability. It also underscored a sense of urgency for action and implementation. The Delta Vision Foundation identified the following overall conclusions about efforts to achieve the Two Co-Equal Goals while protecting and enhancing the Delta as an evolving place. Three conclusions offer hope for the State's ability to address the complex Delta problems that have defied solution for decades.

1. **The level of effort is impressive.**
2. **The Two Co-Equal Goals influence discussion and decision-making across all organizations.**
3. **Major plans and science understanding are advancing.**

However, the status of the Two Co-Equal Goals both remain in critical condition, threatening California's environmental and economic future. The State, Federal agencies, and stakeholders have made little, if any, progress in reducing the risks to water supplies and the environment. The *2011 Delta Vision Report Card* noted, "The lack of tangible progress in implementing the *Delta Vision Strategic Plan* (submitted in 2008) and resulting authorizing legislation (passed in 2009) is sobering." This statement is still true a year later. The following are five factors that demonstrate the underlying reasons for the overall lack of progress and results.

1. **Near-term actions are stalling.**
2. **Performance outcomes are missing.**
3. **The State lacks focus and capacity for implementation.**
4. **Funding considerations have been deferred.**
5. **Linkages are broken.**

The following "Five Overall Recommendations" provide a roadmap for the State Administration, Legislature, Federal agencies, and stakeholders to act with the necessary urgency to advance the Two Co-Equal Goals while protecting and enhancing the Delta as an evolving place. These recommendations build on and incorporate recommendations from the *2011 Delta Vision Report Card*.

1. Intensify Focus and Immediately Implement Near-Term Actions – Strategic Levee System

The Governor and Legislature must elevate the importance of implementing the *Delta Vision Strategic Plan* and authorizing legislation with a sense of urgency. This can be accomplished through an explicit focus on a Strategic Levee System—a coordinated, integrated plan of near-term actions to address the Two Co-Equal Goals and protect and enhance the Delta as an evolving place. The Delta levee system also presents the best immediate opportunity to build State and regional implementation capacity. However, the State lacks a cohesive plan for addressing risks to Delta levees that affect statewide interests. The State, in partnership with Delta interests, water management agencies, and infrastructure owners, should immediately accelerate planning, permitting, and construction of Delta projects that improve water supply reliability, restore the ecosystem, and protect the Delta.

This Strategic Levee System for the Delta would include: (1) defining near-term performance outcomes; (2) setting immediate levee priorities to protect critical infrastructure; (3) appropriating Proposition 1E funding; (4) constructing habitat enhancements consistent with the Ecosystem Restoration Program and Fish Restoration Program Agreement; (5) implementing improved water conveyance through barriers, fish screens, and dredging; (6) continuing the Levees Subventions Program and Special Projects Program; and (7) applying beneficiary pays to allocate costs.

The Governor should delegate responsibility for overall leadership and coordination of a Near-term Action Team to a single individual and agency (such as the Secretary of the Natural Resources Agency) and require development of a comprehensive action plan and publication of a progress report at least annually for the Legislature and public. The Legislature should appropriate funds from Proposition 1E and other sources to fund accelerated planning and construction. The Administration should begin construction of levee improvements, improved through-Delta conveyance, and strategic habitat improvements in the next year. This can be accomplished with leadership, focus, and commitment.

2. Link Strategies and Actions for a Workable Solution – BDCP Plus

The Administration must understand the rationale and importance of linked actions as set forth in the *Delta Vision Strategic Plan* and direct responsible agencies to maintain those linkages. It is only through integrated implementation that the State can implement workable solutions to California's water resource management problems and achieve the Two Co-Equal Goals. Specifically, the following linked actions are fundamental: (a) existing and new facilities must be required to operate consistent with Delta ecosystem restoration; (b) optimization of conservation and efficient water use must be required of any user, exporter, or diverter of water from the Delta watershed; and (c) new "water banking" surface and groundwater storage facilities must be coupled to expanded conveyance (particularly to an isolated facility). An improved BDCP Plan—BDCP Plus—describes how these linked features can create a workable solution.

State and Federal agencies, working in cooperation with water users, environmental interests, and Delta communities must redesign the BDCP preferred project to include critical linkages, assurances, and phasing that ensure that water is managed reliably for both people and fish, and ecosystem restoration actions contribute to species recovery. BDCP Plus must be linked through plans, policies, regulations, bond covenants, and contract language. BDCP Plus includes: (1) **Through Delta Conveyance** that protects water quality and ecosystem function; (2) **Isolated Conveyance** linked to through-Delta conveyance, storage, and water use efficiency so that it is sized and phased appropriately; (3) **Phased Habitat Improvements** to promote learning and adaptation as restoration is scaled; (4) **Storage Commitments** Linked to Conveyance to increase diversion in wet years and decrease diversions in dry years; (5) **Regional Self-Sufficiency Assurances** linked to diversion and export amounts and facilities phasing, particularly in dry years; and (6) **Action and Adaptation** to address scientific uncertainty.

3. Improve Coordination Among Agencies and Appointed Bodies – State Action Team

The Administration needs to establish a mechanism in the form of an “action team” to coordinate the activities of all agencies, departments, and appointed governing bodies (policy, planning, and regulatory) responsible for implementing the *Delta Vision Strategic Plan* and authorizing legislation. The action team must align the two important and parallel functions of the Natural Resources Agency, which includes many of the implementing agencies for the Delta, and the Delta Stewardship Council, which was assigned an agency coordination function by the Legislature. A joint approach in which the Delta Stewardship Council establishes the overall plan, direction, and performance outcomes for the Delta and the Natural Resources Agency directs implementation actions would create the coordinated leadership to meet the challenge. The action team must include and align the State agencies that have planning, permitting, management, and implementation responsibilities for water, ecosystem, infrastructure, and economic development in the Delta. The Water Policy Working Group established by the Natural Resources Agency could serve this function if it is improved with additional accountability and transparency.

4. Optimize the Value of Independent Science – Pilot Projects

State and Federal agencies, science programs, and stakeholders must commit to and expand efforts to test ideas and hypotheses for water management, ecosystem restoration, engineering, and economic development. Increased focus on pilot tests and small projects coupled with a commitment to monitor and evaluate will increase knowledge and understanding, improve long-term planning, grow adaptive management expertise, and build implementation capacity. The results from expanded pilot tests, as well as ongoing basic research, must be synthesized and communicated to elected officials, policy makers, the scientific community, and stakeholders. These efforts will form the practical foundation of adaptive management for long-term implementation. The science programs should continue to obtain independent scientific peer review of qualitative and quantitative outcomes and metrics for the Two Co-Equal Goals that will guide adaptive management. The independent review process must be expanded to include broader perspectives, such as engineering, hydrology, and economics. In addition, independent reviews and peer reviews of scientific findings should be broadened across all science programs.

5. Refine Funding and Financing Plan – Applying Beneficiary Pays

Additional work is needed to refine a fair and prudent funding and financing plan for implementing all components of the *Delta Vision Strategic Plan*. The Administration and Legislature need to consult one another and stakeholders to delineate an appropriate process to accomplish this task. There needs to be greater clarity as to the meaning and practical interpretation of the concept of “beneficiaries pay.” This concept needs to be coupled with a commitment to the principle of collecting revenues statewide only to the extent that statewide interests are served. The Strategic Levees Program described above (Recommendation #1) is the scale of program where planners, participants, and policy makers could make real progress in defining the appropriate mix of federal, state, and local funding according to beneficiary pays concepts and establishing the appropriate mechanisms for collecting funds or requiring action. In addition to General Obligation Bonds, which are appropriate to fund and finance public-interest capital improvements, the use of Revenue Bonds backed by user fees should be optimized in a refined plan to assist with facilities that benefit primarily beneficiaries or specific water users. Further, the Administration should prioritize the sequence of projects to fund and finance with General Obligation bonds when submitting capital budgets to the Legislature to ensure that the highest needs are addressed first in time.

Interview Participants

State Agencies and Legislative Staff

- Natural Resources Agency – John Laird and Jerry Meral
- Delta Stewardship Council – Phil Isenberg and Joe Grindstaff
- Department of Water Resources – Gary Bardini, Dale Hoffman-Floerke, Kamyar Guivetchi, Gail Newton, Bill Croyle
- Department of Fish and Game – Chuck Bonham, Scott Cantrell, Dave Zezulak, and Hildegard Spautz
- California Water Commission – Sue Sims and Rachel Ballanti
- Delta Protection Commission – Mike Machado
- Delta Conservancy – Mary Nejedly Piepho and Campbell Ingram
- State Water Resources Control Board – Caren Trgovcich, Les Grober, and Craig Wilson
- Central Valley Regional Board – Pamela Creedon, Tom Landau, and Jerry Bruns
- Emergency Management Agency – Jim Brown and Al Lehenbauer
- Department of Food and Agriculture – Sandra Schubert
- Delta Science Program and Interagency Ecological Program – Peter Goodwin and Lauren Hastings
- Senate Committee on Natural Resources and Water – Dennis O'Connor
- Assembly Water, Parks, and Wildlife Committee – Tina Cannon Leahy
- Assembly Republican Caucus – Doug Haaland

Federal Agencies

- U.S. Department of the Interior – David Nawi
- U.S. Bureau of Reclamation – Sue Fry
- U.S. Fish & Wildlife Service – Dan Castleberry
- National Marine Fisheries Service – Maria Rea
- U.S. Army Corps of Engineers – Col. William Leady and Paul Roberschotte
- U.S. Environmental Protection Agency – Karen Schwinn
- U.S. Department of Agriculture, Natural Resources Conservation Service – Luana Kiger

Stakeholders

- Association of California Water Agencies – Tim Quinn
- Central Delta Water Agency – Tom Zuckerman
- Contra Costa Water District – Jerry Brown and Greg Gartrell
- Defenders of Wildlife – Kim Delfino
- Delta Counties Coalition – Doug Brown
- East Bay Municipal Utilities District – Doug Wallace
- Metropolitan Water District of Southern California – Jeff Kightlinger
- Mountain Counties Water Resources Association – John Kingsbury
- Natural Resources Defense Council – Barry Nelson
- North Delta Water Agency – Melinda Terry
- Northern California Water Association – David Guy and Todd Manley
- Planning and Conservation League – Jonas Minton
- Restore the Delta – Barbara Barrigan-Parrilla
- Sacramento Regional County Sanitation District – Stan Dean
- Southern California Water Committee – Rich Atwater
- State and Federal Contractors Water Authority – Greg Zlotnick
- Suisun Marsh Resource Conservation District – Steve Chappell
- The Bay Institute – Gary Bobker
- The Nature Conservancy – Leo Winternitz
- Westlands Water District – Jason Peltier

Support for the Delta Vision Foundation and the 2012 Annual Report Card provided by the **S. D. Bechtel, Jr. Foundation** and the **David and Lucile Packard Foundation**.

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The Delta Vision Foundation is the successor to the Delta Vision Blue Ribbon Task Force, the independent body established under Governor's Executive Order S-17-06. Our goal is to maintain the visibility and viability of final recommendations of the Delta Vision Blue Ribbon Task Force, and encourage the public policy process to utilize those recommendations. The Foundation issues reports and participates in policy processes, but takes no formal position on legislation. The Foundation provides information to help policy makers act to restore the Delta and provide a more reliable water supply for California.

Delta Vision Foundation
(415) 419-5133
www.deltavisionfoundation.org



October 26, 2011

Delta Stewardship Council
980 Ninth Street, Suite 1500
Sacramento, CA 95814

Re: Delta Plan, Chapter 9 Finance Plan Framework to Support Coequal Goals

Dear Chairman Isenberg and Members of the Council:

For too long, the State has lacked a clear plan and strategy for funding and financing the critical improvements to fix the Delta and achieve the Two Co-Equal Goals as now described in the *Delta Vision Strategic Plan* and the 2009 water legislation. The Delta Vision Foundation applauds the Council's initial efforts to frame the funding and financing needs for Delta solutions.

The Delta Vision Foundation directors and staff reviewed the *Fifth Staff Draft Chapter 9 of the Delta Plan* and convened a roundtable discussion among a broad cross-section of stakeholders on October 12th to review and discuss funding and finance issues. The enclosed DVF comments highlight the need to accelerate discussion of funding and finance such that it can inform planning and decision making already underway. The finance plan framework requires for more specific discussion of the funding needs, clarification of the available funding and financing mechanisms, and explicit definition of the critical linkages to achieve the Two Co-Equal Goals.

We recognize that DSC staff will be releasing the *Sixth Staff Draft Delta Plan* shortly and wanted to get these comments to you as early as possible. We are prepared to review the *Sixth Staff Draft of Chapter 9* and update the enclosed comments as appropriate. Please do not hesitate to contact me at (415) 419-5133 or charles@deltavisionfoundation.org if you have any questions about the enclosed comments.

Sincerely,

A handwritten signature in black ink that reads "Charles L. Gardiner".

Charles L. Gardiner
Executive Director

Cc: California Water Commission

SUMMARY OF COMMENTS

DELTA STEWARDSHIP COUNCIL, DRAFT DELTA PLAN CHAPTER 9 Finance Plan Framework to Support Co-Equal Goals

PURPOSE AND OVERVIEW

This document provides comments on the *Fifth Staff Draft Delta Plan Chapter 9 Finance Plan Framework to Support Coequal Goals* prepared by the professional staff team for the Delta Stewardship Council (DSC). It is intended by the Delta Vision Foundation that these comments be available to the DSC, other policy bodies, and stakeholders to incorporate into all relevant policies and plans.

California cannot afford to fail to invest immediately, sufficiently, and fairly in implementing the *Delta Vision Strategic Plan*. The *2011 Delta Vision Report Card* addressed this issue as one of the major recommendations as follows:

Report Card Recommendation: Refine Funding and Financing Plan
Additional work is needed to refine a fair and prudent funding and financing plan for implementing all components of the *Delta Vision Strategic Plan*. The Administration and Legislature need to consult one another and stakeholders to delineate an appropriate process to accomplish this task. There needs to be greater clarity as to the meaning and practical interpretation of the concept of “beneficiaries” pay. This concept needs to be coupled with a commitment to the principle of collecting revenues statewide only to the extent that statewide interests are served. In addition to General Obligation Bonds, which are appropriate to fund and finance, public-interest improvements, the use of Revenue Bonds backed by user fees should be optimized in a refined plan to assist with facilities that benefit primarily beneficiaries or specific water users. Further, the Administration should prioritize the sequence of projects to fund and finance with General Obligation bonds when submitting capital budgets to the Legislature to ensure that the highest needs are addressed first in time.

COST OF WATER INFRASTRUCTURE IN PERSPECTIVE

The Legislative Analyst’s Office has estimated that California’s unmet investment need in water-related infrastructure and ecosystem management is on the order of \$100 billion over the next 20 years.¹ These investments include funding from Federal, State, regional, and local government sources. While \$100 billion appears to be a daunting number when considering the State’s recent economic challenges, State leadership and stakeholders must consider the following to put funding needs in proper perspective:

¹ Funding Public-Purpose Water-Related Activities, Legislative Analyst’s Office, April 28, 2011

- California’s investment need is relatively modest compared to the size of the economy. California is the 8th largest economy in the world with an annual Gross Domestic Product of \$1.9 trillion.²
- Investments for Ecosystem Restoration and Water Supply Reliability are also relatively small compared to current annual expenditures. Approximately \$20 to \$30 billion is spent annually for water services and water-related program.³
- Water rates are lower than other household utility costs. Average monthly household water and wastewater rates are less than average costs for other utilities such as electricity, cable/satellite, cell phone (see Attachment 1).

California’s investment need is substantial, but well within the capacity of California businesses and residents to support a vibrant economy and high quality of life. However, gaining the commitment of elected officials and voters for this level of funding will require clear descriptions of the needs, programs, projects, benefits, and real costs in simple, relevant terms for the state as a whole and for individuals.

GENERAL COMMENTS ON THE DRAFT DELTA PLAN CHAPTER 9 (FINANCE PLAN)

The following represent preliminary comments and recommendations to the Delta Stewardship Council and others regarding the approach for developing a workable funding and financing plan. While funding and finance issues are complex and controversial, they must be defined and discussed in real terms at the same time as the Delta Plan and other planning activities are underway to ensure that realistic plans and programs are approved and funded.

Establish and Maintain Linkages

The *Fifth Staff Draft Delta Plan* overall and *Chapter 9 Finance Plan to Support Coequal Goals* fail to link strategies and actions for a workable solution. Below is the *2011 Delta Vision Report Card* recommendation that addresses this issue and provides the most important input to the Delta Stewardship Council for the substance of the *Delta Plan*.

Report Card Recommendation: Link Strategies and Actions for a Workable Solution

The Administration must understand the rationale and importance of linked actions as set forth in the Delta Vision Strategic Plan and direct responsible agencies to maintain those linkages. It is only through integrated implementation that the State can implement workable solutions to California’s water resource management problems and achieve the Two Co-Equal Goals. Specifically, the following linked actions are fundamental: (a) existing and new facilities must be required to operate consistent with Delta ecosystem restoration; (b) optimization of conservation and efficient water use must be required of any user, exporter or diverter of water from the Delta watershed; and (c) new “water banking” surface and groundwater storage facilities must be coupled to expanded conveyance (particularly to an isolated facility). Actions can and must be legally linked through: adopting comprehensive plans (by Delta Stewardship Council, California Water Commission, State Water Resource Control Board, Delta Protection Commission, and Delta Conservancy) with

² <http://econpost.com/californiaeconomy/california-economy-ranking-among-world-economies>

³ Delta Stewardship Council, *Fifth Staff Draft Delta Plan*, August 2, 2011, page 207.

integrated actions certified as the environmentally-preferred alternative; adding explicit intent language and linkage requirements to bond covenants and contracts; and enacting clarifying legislation, if needed. The Administration must accelerate planning and engineering for construction of storage to capture water truly surplus to the environment as a linked and companion component to conveyance, as explicitly recommended and underscored in the Delta Vision Strategic Plan. The current and past Administrations have been focused primarily on advancing the isolated conveyance component of the Delta Vision Strategic Plan recommendations through the Bay-Delta Conservation Plan process to the neglect of other essential parts of the solution. Further, it is important to require any entity benefiting from new facilities to apply the most responsible water resource management with performance goals and metrics.

Define Terminology

Clear, consistent, and commonly accepted terms and definitions should be used in all reports, discussions, and recommendations. For example, funding and financing are two distinct terms that are frequently used interchangeably or with overlapping meanings.

Other terms, such as beneficiary pays, have been presented and used as concepts without detail, which has allowed general conceptual agreement but avoided the specific discussions of who the beneficiaries are and the mechanisms for their payment. The following are terms that warrant more precise and expanded definitions to improve the discussion of funding and financing issues, policies, and recommendations. A complete definition would include a description, a complete listing of examples, a listing of what is not included in the definition, and a description of the mechanisms for applying it to the *Delta Plan*.

Specifically, the Finance Plan should list and describe funding and financing mechanisms and for which types of activities each is appropriate.

- **Funding**
 - Federal Appropriations (Supported by Federal Taxes and Fees)
 - State General Fund Appropriations (Supported by State Taxes and Fees)
 - User Rates (through Contracts)
 - Dedicated Fees and Surcharges
 - Dedicated Taxes and Assessments
 - Donations
- **Financing**
 - Pay-As-You-Go
 - Revenue Bonds
 - General Obligation Bonds
 - Public-Private Partnerships
 - Private Investment
- **Alternatives to State/Federal Funding to Accomplish Objectives**
 - Incentives
 - Regulations/Requirements/Conditions

The Finance Plan should also include specific definitions of the following terms to be sure that all decision makers and stakeholders share a common understanding of terminology.

- Funding
- Financing
- Beneficiaries
- Stressors
- Public Benefits
- Water Rates
- Contracts
- User Fees
- Public Goods Charge (or alternate term)
- Enterprise Funds or Special Funds

Describe Plans and Activities for Funding

The Finance Plan must define the major activities to be funded and define broad allocation of responsibilities. The plans, activities, and projects should be listed and described broadly in three categories:

- Planning – Science, Data, Information, Planning and Prioritizing, and Stakeholder Input
- Actions – Acquisition, Construction, Operation, and Maintenance
- Management and Measurement – Monitoring, Enforcement, and Adaptive Planning

The allocation of responsibility for the plans and activities should be described in at least the following categories:

- State Responsibilities
- Federal Responsibilities
- Regional Responsibilities (e.g., Water Users, Dischargers, and Flood Management Agencies)
- Local Government Responsibilities (Cities and Counties)

Estimate Costs

Any reasonable discussion of funding and financing must be based on realistic projections of costs for all plans and activities. The costs must be estimated now, regardless of the status of planning activities, and updated as planning work proceeds. Without connecting costs to the plans and activities, decision makers will reach ill-informed conclusions and set unrealistic expectations for accomplishment.

Specifically, cost estimates must include capital, operating, administrative, and regulatory/mitigation costs. At a minimum, costs should be forecast through 2030. At this point, costs can be forecast for major expenditure areas such as ecosystem restoration, conveyance, storage, levee systems and emergency response, economic development, water quality, regional self-sufficiency, and others. For example, the FloodSafe Program has developed preliminary cost and allocation estimates for implementing the Central Valley Flood Protection Plan (\$13 to \$16 billion, with approximately 50% of that cost to be paid by the State). Each major expenditure category should also list linked benefits, such as habitat restoration, water reliability and quality, etc., so that linkages are clear and explicit. For comparison, it would be valuable to have cost

estimates for failing to act, such as recovery costs from a catastrophic flood or earthquake in the Delta.

Adopt Guiding Principles

The guiding principles described in Chapter 9 of the *Fifth Staff Draft Delta Plan* are a mixture of approach, definitions, concepts, and principles. The two tenets described on page 205 (“beneficiaries pay” and “stressors pay”) are closer to principles that guide the funding and finance of Delta solutions. For example, “beneficiary pays” is a concept that has been presented and acknowledged since at least the early days of the CALFED Bay-Delta Program. The DSC staff should develop and recommend specific affirmative language of a beneficiary pays principle (see below). The DSC staff should rewrite Chapter 9 to explicitly describe the funding and finance principles to be adopted by the Delta Stewardship Council and/or recommended for adoption by the Governor and Legislature. The following are suggested Finance Plan guiding principles for adoption by the Delta Stewardship Council, the Governor’s Administration, and the Legislature.

1. Funding Source Alignment

Principle: The State should align funding sources and financing with investments that benefit the sources of those funds – local and regional fees should support local or regional projects; State funds should support improvements with public and/or statewide benefit, to the extent that statewide benefits are not required by mitigation or regulatory requirements.

Rationale: Delta solutions will require joint investment by State/Federal agencies and Regional/Local government. Aligning the sources of funds with the implementation responsibilities and benefits will increase efficiency and accountability.

2. Funding Certainty and Stability

Principle: The State should adopt funding and financing strategies and mechanisms that provide long-term, stable funding sources.

Rationale: Reliable, long-term funding stability is necessary to ensure steady progress toward the Two Co-Equal Goals over the next 50 to 100 years.

3. Program Linkages

Principle: State investments should be conditioned on fundamental linkages to support the Two Co-Equal Goals through bond covenants and contracts: (a) existing and new facilities should be required to operate consistent with Delta ecosystem restoration; (b) optimization of conservation and efficient water use should be required of any user, exporter, or diverter of water from the Delta watershed; and (c) new “water banking” through surface and groundwater storage facilities should be coupled to expanded conveyance.

Rationale. Only through integrated implementation can the State develop workable solutions to California’s water resource management problems and achieve the Two Co-Equal Goals.

4. Investment Priorities

Principle: The State should establish clear, objective priorities for investment to maximize progress toward the Two Co-Equal Goals.

Rationale: With substantial needs and limited resources, the State and beneficiaries must make choices. An objective evaluation of benefits, costs, and impacts will help identify the actions that warrant immediate, near-term, and long-term investment.

5. Accountability for Results

Principle: The State should establish clear lines of responsibility and accountability, rigorous and transparent reporting and oversight requirements, and clear, measurable performance measures for planning, action, and management activities.

Rationale: Agencies and stakeholders responsible for delivering public infrastructure initiatives must be held accountable.

6. Delivery Efficiency

Principle: The State should encourage cost-effective and timely delivery of projects and incentivize innovation in design by defining the purpose, function, and performance objectives for each program or project to stimulate competition of ideas and price in bidding.

Rationale: The public expects prompt, effective, and efficient implementation of Delta solutions. Competition inspires innovation and cost-effectiveness.

7. Procurement Fairness and Transparency

Principle: The State should ensure that all public infrastructure initiatives have efficient and fair bidding processes and contractual agreements that are based on clear, comprehensive guidelines and full public disclosure.

Rationale: The processes facilitating the development of public infrastructure initiatives must be fair, transparent, and efficient.

8. Budget Assurances

Principle: The State should include legal requirements and other mechanisms to ensure that taxes, fees, and other revenues collected for specific purposes are appropriated and spent to achieve those purposes and to ensure that financing mechanisms are only used to fund long-term investments.

Rationale: Taxpayers and users expect results for dollars invested toward specific programs and projects.

9. Beneficiaries Pay

Principle: Where the State is the provider of infrastructure and services, the State should identify all specific beneficiaries of capital investments and operational costs and establish the appropriate funding and financing mechanisms to apportion and recover costs for each class of beneficiary.

Rationale: California's water infrastructure is driven by individual and business needs (residential, agricultural, commercial, industrial, and energy). For water users, cost recovery mechanisms should be based on volume of water and ensured through contracts and water rates. For other beneficiaries, whenever possible, cost recovery mechanisms should be based on similar approaches that reduce reliance on the natural resources of the Delta. All beneficiaries should be identified and included as funding sources.

10. Stressors Pay

Principle: Whenever possible, the State should identify human activities that stress the natural systems of the Delta and apportion regulatory and restoration costs to the stressors through volume-based or impact-based fees.

Rationale: California’s natural systems are stressed by many and diverse human activities, most of which are managed by State and Federal regulatory processes. Volume-based or impact-based fees encourage reduction of the activities stressing the Delta.

Refine Chapter 9 Structure and Approach

As currently drafted, Chapter 9 is a general description of an approach to funding and financing. The Chapter should be reorganized and rewritten to provide specific needs and recommendations for funding and financing, including the following:

- Funding and financing principles for adoption by the Council and recommendation to the Governor and Legislature.
- Listing of State, Federal, regional, and local plans and activities through 2030 to achieve or make measurable progress toward the Two Co-Equal Goals.
- Capital, operations, administrative, and regulatory/mitigation costs of the plans and activities through 2030 and displayed by responsible State agency, Federal agency, and regional and local governments.
- Existing and recommended sources and amounts of necessary funds through 2030.
- Recommended mechanisms and procedures for achieving each of the funding and financing principles.

Only with these elements can the Governor and Legislature begin legitimate discussions of the funding and financing necessary to achieve the Two Co-Equal Goals. Therefore, Chapter 9 should also include the next steps necessary to further refine the plans, costs, and funding and finance mechanisms such that funding and finance strategies and mechanisms are tied to specific objectives, performances measures, programs, and actions.

SPECIFIC COMMENTS ON THE DRAFT DELTA PLAN CHAPTER 9 (FINANCE PLAN)

The following are the specific Delta Vision Foundation comments on *Fifth Staff Draft Delta Plan Chapter 9*:

1. The references in the “policies and recommendations” (page 205, line 14) and proposed “Guiding Principles” (page 206, lines 16-17, 26-28) reveal the lack of linkages among the “critical mass” actions recommended in the *Delta Vision Strategic Plan* and the importance of certain components to the solution.
 - a. Specifically, the *Fifth Staff Draft Delta Plan* policies and recommendations referenced on page 205, line 14 need to be revised and re-ordered to reflect the “loading order” of strategies and the linking (coupling) of solution components: conservation and efficiency together with ecosystem restoration, storage and conveyance, levee reconstruction and flood risk protection, protection and enhancement of the Delta as an evolving place, water quality protection, science and governance. Please note that the *Draft* list mixes “actions” and “outcomes” and probably should be rewritten to

make the distinction: water quality protection is a result of the actions; governance and science are inputs to the actions.

- b. The Guiding Principles 4th bullet (page 206, lines 16-17) should acknowledge that construction of storage is an essential component of the solution for Delta ecosystem improvement and not referenced in a manner to imply that it is for reliability only.
2. The Guiding Principles 6th bullet (page 206, lines 26-30) should include storage, levee reconstruction, and through-Delta conveyance.
3. The *Delta Plan* needs to make a distinction between “funding” and “financing.” Funding is the source of funds to pay for improvements or facilities (such as user fees, State General Fund, project revenues through contracts, or Federal funds). Financing is the mechanism by which funds are paid (one time or over time) to retire debt (such as Special Fund into which fees are paid and accrued, General Obligation Bonds, or Revenue Bonds) incurred to make improvements or construct facilities.
4. The Guiding Principles need a logical framework for “aligning revenues with responsibilities” such that specific funds are used to support investments that benefit primarily the source or payors of the funds: local fees should support local or regional projects; State funds should support improvements with public and/or statewide benefit. While this concept needs more discussion and development, it is an important additional element to be included in the Guiding Principles.
5. There is a need for focus on innovation in design and implementation (ecosystem restoration and facilities construction) and incentives for performance for funding. There is no mention of these essential aspects of cost-effective and timely delivery of projects. This means that projects need to be described in terms of function and performance to stimulate competition of ideas as well as price in bidding. The concept of “design-build” used for transportation projects needs to be introduced into water facilities projects.
6. There is a need for accountability for timely performance by all the agencies with responsibilities. The Immediate Needs (page 8, lines 28-25) section appears to place a priority on funding the bureaucracy with no sense of urgency, instead of delivering results for the proposed \$50 million operating budgets. Funding of these agencies should be pursuant to performance and real progress, which requires detailed work plans with a schedule of deliverables in a critical path.
7. The recommendation for use of Proposition 1E funds (page 210, lines 34-41) needs to be revised to significantly increase the amount of Proposition 1E funds used immediately to construct a “strategic levee system” and improve through-Delta conveyance.
8. The section on Public Goods Charge (page 212, lines 9-18) needs to be carefully considered as to the appropriateness and a clear policy on collecting statewide fees only for statewide and/or public purposes. With the kind of linkages recommended in the *Delta Vision Strategic Plan* and summarized in the *2011 Delta Vision Report Card*, local water districts (beneficiaries) would be required contractually to optimize conservation and water use efficiency in order to receive the benefits of improved conveyance and storage and could decide if they wanted to use existing funds or increase customer charges to pay for those kinds of projects. This would be far more efficient than the statewide collection of fees into a “big pot” and an allocation process back to local agencies. There is always a “friction loss” in that kind of process.

9. The section on Prioritized Levee Investments (page 212, lines 19-26) needs to be expanded to acknowledge the role of levees in protecting water quality for both habitat and export needs and the proposed benefit/cost analysis methodology needs to be substantively revised to reflect this value.
10. Funding and financing mechanisms must incorporate legal requirements for integrated actions as set forth below.

In conclusion, the *Fifth Staff Draft Delta Plan Chapter 9* needs work on both substance as delineated above and structure (organization of the headings and sections to be logical and coherent).

Attachment 1 COST OF WATER INFRASTRUCTURE IN PERSPECTIVE

This attachment provides additional background details on the following:

- Cost of Water Services in California
- Water Infrastructure Investment
- Unmet Funding Needs for Water and the Environment
- Water Rates and Other Household Utility Costs

Cost of Water Services in California

The Delta Stewardship Council compiled estimates of the annual expenditures for water-related activities and services across California. As shown in Chapter 9 of the Fifth Staff Draft Delta Plan, annual water-related expenditures exceed \$20 billion per year.¹

While \$20-30 billion per year of water-related services appears to be a substantial cost, the water services support an overall California economy of \$1.9 trillion dollars.

The annual water-related service costs average to \$675 per person including water, wastewater, flood control, and ecosystem management for California's 37 million residents.

Water Infrastructure Investment

Although there is likely no tally of the total value of California's water-related infrastructure for water, wastewater, flood control, and ecosystem management, California and the Federal government have made significant investment over the past one hundred years, including \$6.4 billion to build the State Water Project (SWP)² and \$3.4 billion for the Federal Central Valley Project (CVP).³ Local and regional investment in storage, distribution, collection, and treatment facilities and flood management far surpass the investment in the SWP and CVP.

California continues to invest in water-related activities and ecosystem restoration. Over a ten-year period through 2009, the State invested approximately \$3 billion in Delta-related programs.⁴ Since 1970, the state's voters have authorized more than \$23.4 billion in water-related general obligation bonds, mainly for water quality and drinking water purposes. About 84 percent of the total amount authorized in these bonds (\$19.6 billion) has been authorized since 2000.⁵

Unmet Funding Needs for Water and the Environment

The Legislative Analyst's Office has estimated the State's total unmet needs for water and wastewater infrastructure over the next 20 years at approximately \$100 billion, as follows:

¹ Delta Stewardship Council, Fifth Staff Draft Delta Plan, August 2, 2011, page 207.

² Financing Water Infrastructure, Legislative Analyst's Office, August 26, 2009

³ San Luis Unit Capital Construction Costs, Government Accounting Office, GAO-08-307R, November 7, 2007.

⁴ Financing Water Infrastructure, Legislative Analyst's Office, August 26, 2009

⁵ Financing Water Infrastructure, Legislative Analyst's Office, August 26, 2009

- Drinking water infrastructure: \$39 billion (over a period of 20 years).
- Wastewater infrastructure: \$29.9 billion (over a period of 20 years).
- Flood infrastructure: \$26 billion (over a period of 20 years).
- Delta ecosystem restoration: \$3.6 billion, plus \$46 million/year over 50 years in ongoing demands for Bay Delta Conservation Plan implementation.⁶

In 2006, the American Society of Civil Engineers (ASCE) estimated that California needs to invest \$16 billion annually in water-related infrastructure.

- Levees/Flood Control \$4.2 billion
- Urban Runoff \$5.5 billion
- Wastewater \$2.3 billion
- Water \$4 billion

In their 2006 Infrastructure Report Card, ASCE noted that “In the past 40 years, our capital investment has plummeted precipitously. In the 1950s and 60s, California spent 20 cents of every dollar on capital projects. By the 1980 that figure dropped to less than five cents on the dollar. Current estimates put infrastructure investment at around a penny on the dollar. This despite ever-increasing demands presented by population growth and economic development. Much of the state’s public infrastructure was designed and built to serve a population half the size of California’s 35 million residents. And the state is still growing strong.”⁷

Water Rates and Other Household Utility Costs

Water and wastewater rates in California remain a high value for consumers. A brief comparison of household water and wastewater rates with rates for other utilities and services demonstrates that value for Californians and capacity for the additional investment necessary to achieve the Two Co-Equal Goals.

Average Monthly Household Costs For Select Services	
Electricity ¹	\$100
Cell phone ¹	\$78
Cable/satellite ¹	\$70
Water/Wastewater ²	\$63 (water = \$32, wastewater = \$31)
Garbage ¹	\$30
Source:	
¹ Association of California Water Agencies	
² Average rates for the eight largest cities in California, 2009/2010, 50 Largest Cities, Water/Wastewater Rate Survey, Black & Veatch, 2010.	

⁶ Funding Public-Purpose Water-Related Activities, Legislative Analyst’s Office, April 28, 2011

⁷ ASCE California, 2006 Infrastructure Report Card, A Citizen’s Guide.

Attachment 2
ROUNDTABLE PARTICIPANTS, OCTOBER 12, 2011

Joya Banerjee	S. D. Bechtel, Jr. Foundation
Linda Best	Contra Costa Council
Mark Biddlecomb	Ducks Unlimited
Michael Bowden	Rail, Intermodal, Marine (RIM) Logistics
Liz Braddick	CWA Board of Directors, CCWF Board
Byron M. Buck	State & Federal Contractors Water Agency
Keith Coolidge	Delta Stewardship Council
Pamela Creedon	Central Valley Regional Water Quality Control Board
Stan Dean	Sacramento Regional County Sanitation District
Ane Deister	Cardno ENTRIX
Anton Favorini-Csorba	California Legislative Analyst's Office
Randy Fiorini	Delta Stewardship Council
Craig Geldard	Pacific Gas & Electric Company
David J. Guy	Northern California Water Association
Doug Haaland	California State Assembly, Republican Caucus
Allison Harvey Turner	S. D. Bechtel, Jr. Foundation
Doug Johnson	California Invasive Plant Council
Luana Kiger	USDA, Natural Resources Conservation Service
John Kingsbury	Mountain Counties Water Resources Agency
Cynthia Koehler	Environmental Defense Fund
Tina Cannon Leahy	Assembly Water, Parks & Wildlife Committee
Richard G. Little, AICP	Keston Institute for Public Finance and Infrastructure Policy
Felicia Marcus	Natural Resources Defense Council
Michael Marsh, CPA	Western United Dairyman
Steve McCarthy	California Senate Republican Policy Group
Jeffrey Michael, PhD	University of the Pacific, Eberhardt School of Business
Jonas Minton	Planning and Conservation League
James Nachbaur	California Legislative Analyst's Office
Barry Nelson	Natural Resources Defense Council
Valerie Nera	California Chamber of Commerce
Dennis O'Connor	California Senate Committee on Natural Resources and Water
Mary Piepho	Delta Counties Coalition/Contra Costa County, Board of Supervisors
Timothy H. Quinn	Association of California Water Agencies
Jason Rhine	California Outdoor Heritage Association
Chris Scheuring	California Farm Bureau Federation
Susanna Schlendorf	Office of Assemblywoman Joan Buchanan
Jeremy Smith	State Building and Construction Trades Council of California
Melinda Terry	North Delta Water Agency
Brian Thomas	Southern California Water Committee/Public Financial Management, Inc.
Doug Wallace	East Bay Municipal Utility District
Robert D. Whitley, PE	Contra Costa Council/Whitley Burchett & Associates
Jeff Wingfield	Port of Stockton
Leo Winternitz	The Nature Conservancy, California Water Program