

Chapter 8, Funding Principles

General Comments

- Chapter 8 does not incorporate important input from Councilmembers and stakeholders from September and October 2011.
- Chapter 8 needs additional context on how funding currently works in each program area and what is likely to change.
- Identify what actions are needed and how much they cost over the next 5 and 20 years.
- The funding principles are an inadequate basis for beginning a funding and finance plan.

Provide Additional Context

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*. That is, what are the respective funding and regulatory responsibilities for planning, implementation, and oversight for the following? 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?

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

Describe Plans and Activities for Funding and Estimate Costs

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 5 years and for the next 20 years. 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.

Ten Funding and Financing Principles

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.