

AGENDA ITEM 9: Briefing on Delta Flood Risk Management Assessment District Feasibility Study: Findings and Recommendations

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Requested Action: **Receive report**

SUMMARY

Staff and the M.Cubed team have completed the analysis and conducted the last scheduled workshop of the Delta Flood Risk Management Assessment District Feasibility Study (DFRMADFS, or the study). This staff report describes the work performed since the staff briefed the Commission in July. It also describes upcoming work to obtain comments on the study’s findings and recommendations, and prepare the final report.

WORK PERFORMED

To date, the consulting team has produced eight project memoranda, several with supporting documentation, and conducted four stakeholder workshops. At each workshop, 12-20 representatives of a wide range of Delta interests—from local reclamation districts to water exporters to state agencies—participated in the discussions. The workshop dates and topics covered are as follows:

March 9, 2016: Project Building Blocks—Project Memorandum #1 Historic Investments in Delta Flood Protection; Project Memorandum #2 Current Legal and Institutional Context for Financing Flood Protection; and Project Memorandum #3 Archetypes (as used in the study).

May 24, 2016: Establishing a Beneficiary-Pays Approach—Project Memorandum #4: The Relationship of Benefits and Costs to Financing Mechanisms; Project Memorandum #5 Beneficiaries Analysis; Project Memorandum #6 Approach to Estimating the Cost of Levee Upgrade Projects.

June 15, 2016: Screening the Financial Mechanisms—Project Memorandum #7 Cost Allocation Issues; Project Memorandum #8 Evaluation of Possible Financial Mechanisms.

September 27, 2016: Results of Financial Mechanism Screening—Staff and M.Cubed presented the overall findings of the analysis and observations, discussed next steps with Stakeholders, and requested written comments on the findings and observations by October 7th.

Staff received four comment letters:

- August 3, 2016 letter from Terry Erlewine, General Manager, State Water Contractors;
- October 7, 2016 letter from Terrie Mitchell, Manager of Legislative and Regulatory Affairs, Sacramento Regional County Sanitation District;

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- October 7, 2016 letter from Eric Fredericks, Chief, Office of Transportation Planning—South Branch, California Department of Transportation; and
- October 7, 2016 letter from Terry Erlewine, General Manager, State Water Contractors.

Staff has also been coordinating with Delta Stewardship Council staff on the findings of this study and the Delta Levee Investment Strategy (DLIS).

DRAFT AND FINAL REPORTS

A draft “Report of Findings and Recommendations” (included in the Commissioners’ packets for today’s meeting) identifies the most feasible finance mechanisms that could generate revenue to pay for levee maintenance, repair, rehabilitation and improvements (or more generically, levee “work”) or other means of reducing flood risk. These mechanisms include the current funding (a mix of public funds and assessments) as well as one or more new fees that would bring in revenue from beneficiaries that do not currently pay for Delta levees in proportion to the benefits received. Altogether, implementation of this proposed portfolio of finance mechanisms would help move toward a levee funding system based on the “beneficiary pays” principle. The report recommends that the next step should be a collaborative implementation study of the details of the candidate fees to determine how they could be calculated, collected, and distributed.

Staff requests that the Commission provide their comments and suggestions on the draft Report of Findings and Recommendations to staff. Staff will immediately open an informal comment period from Friday, October 21 to Friday, November 4. During the comment period, staff will discuss the report with stakeholders, document any comments received, incorporate revisions as appropriate, and prepare the complete Final Report of the DFRMADFS study. Staff will bring the responses to comments, the text of a transmittal letter to the Department of Water Resources (DWR), and the Final Report to the Commission for approval on November 17.

The Final Report will include previously published memoranda and appendices, a discussion of Delta beneficiaries and benefits, findings of the financial mechanism screening process, and recommendations and next steps. It will describe the financing options that best fit beneficiary characteristics associated with levee work, and the options that most likely will not work, as well as the connection between this study’s results and the DLIS. The report will include a manual for the spreadsheet tool used to screen the financial mechanisms, which will be made available online. The report will outline the elements of the additional analysis needed and a structured deliberative process to develop a beneficiary-pays-based financing strategy.

The transmittal letter to DWR will address the findings required in the interagency agreement that funded the study. Because the interagency agreement presumed that the analysis would

focus solely on the feasibility of an Assessment District—which we determined is not feasible—the transmittal letter will explain the changed context of the study. In particular, the team’s approach changed because 1) we quickly determined that an “assessment district” under current law could not reach beneficiaries that do not own land in the Delta, consequently it does not advance a beneficiary-pays-based approach; and 2) the Delta Levee Investment Strategy (DLIS) did not generate the more detailed project priorities, beneficiary analysis, and cost allocation that was planned and anticipated at the time the M.Cubed contract was signed.