

Delta Flood Risk Management Assessment
District Feasibility Study
Findings and
Recommendations

October 20, 2016

Delta Protection
Commission



Feasibility Study Context

- ▶ Funding for Delta levees is in transition
 - ▶ Additional funding will be needed to improve levees
- ▶ Delta Plan and Economic Sustainability Plan call for an “Assessment District”
- ▶ CA Water Action Plan: “Increase Flood Protection”
- ▶ Long-standing interest in applying “Beneficiaries-pay”

Study Objectives Evolved...

- ▶ Demonstrate why an Assessment District is not a “silver bullet” for levee funding;
- ▶ “Proof of Concept” feasibility study of financial mechanisms that would apply the “beneficiary-pays” principle
- ▶ Explore cost allocation as intertwined with legal requirements; and
- ▶ Identify steps for developing a portfolio of financing mechanisms

Stakeholder Outreach

- ▶ Initial outreach to stakeholders (November-December 2015)
- ▶ Four workshops for stakeholder working group (March, May, June, September 2016)
- ▶ Eight Project Memoranda developed and posted for public review
- ▶ “Report of Findings and Observations” discussed at September workshop

Study Steps

- ▶ Workshop #1 (March 9, 2016)
 - ▶ Context and history
 - ▶ Introduce general approach—archetypes
- ▶ Workshop #2 (May 24, 2016)
 - ▶ Concepts for applying beneficiaries-pay principle
- ▶ Workshop #3 (June 15, 2016)
 - ▶ Cost allocation principles and constraints
 - ▶ Financing mechanism screening guidance and examples
- ▶ Workshop #4 (September 27, 2016)
 - ▶ Present observations and Findings
 - ▶ Discuss next steps and recommendations

Today's Briefing

1. Present Findings & Observations;
2. Describe feasible finance mechanisms; and
3. Present recommendations and proposed next steps.

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Results from Screening Financing Mechanisms



Policy Framework

- ▶ Uncertain future levee funding suggests that new funding sources are needed;
- ▶ Propose a transparent and consistent approach to allocating available funding, including:
 - ▶ A broader set of financing options,
 - ▶ Applying beneficiary-pays where feasible,
 - ▶ Explicitly acknowledging the value of *public* goods, and
 - ▶ Explicitly acknowledging the value of *private* goods.

Study Objectives

- ▶ Identify the range of beneficiaries
- ▶ Evaluate potential financing mechanisms across beneficiaries
- ▶ Identify most feasible mechanisms
- ▶ Recommend next steps to further explore portfolio of mechanisms

What Are the Benefits of Delta Levees?

- ▶ Flood protection - life, property and economic activity
- ▶ Fresh water quality and conveyance
- ▶ Ecosystem and habitat - both aquatic and terrestrial
- ▶ The unique values of the Delta as a special place
 - ▶ Recreation & tourism
 - ▶ Cultural heritage

DELTA LEVEE BENEFICIARIES

Delta Communities

Schools - Facilities - Personal Safety - Residents - Local Economy

Infrastructure

Power Lines - Railroads - Telecommunications - Pipelines - Highways - Ports

In-Delta Water Users

Delta Agriculture - Delta Municipal Users

Out-of-Delta Water Users

Central Valley Agriculture, Southern California Municipal Users

Upstream Dischargers

Wastewater and Stormwater Management

State and Public Interests

Public Safety - Ecosystem Health - Recreation - Economy

How Could We Pay for Levees Using Beneficiaries-Pay Principle?

Source of Funding	Current Approach	Beneficiaries-Pay Approach
Public financing (State / Federal)	State and/or Federal (as much as 75%)	<i>Public safety</i> <i>Habitat</i> <i>Indirect economic</i>
Assessments, Special taxes, User fees, Regulatory charges, etc.	Agriculture and Local residents and businesses (25% or more)	Agriculture Local residents/businesses <i>Water supply</i> <i>Infrastructure</i> <i>Recreation</i>

Valuing Benefits

- ▶ Previous focus only on property uses
- ▶ Bringing in other benefits and beneficiaries
- ▶ Flood hazards
- ▶ Economic exposure
 - ▶ Habitat: Restoration costs
 - ▶ State and regional economy: Ripple effects
 - ▶ Water users: Avoided costs of alternative supplies of water
 - ▶ Users of linear infrastructure: Avoided disruption
- ▶ Equates to flood risks for each

Evaluate Potential Financing Mechanisms

- ▶ Asked how would the mechanism reach each beneficiary? (i.e., property-based or usage-based)
- ▶ Screened the mechanisms against the key feasibility criteria:
 - ▶ *Institutional*: responsible organizations
 - ▶ *Legal*: legal restrictions or requirements to be met
 - ▶ *Cost Responsibility and Limits*: total coverage and sufficiency of candidate mechanisms
 - ▶ *Stakeholder/Political Support*

Observations and Findings

- ▶ Benefits and beneficiaries extend outside the Delta.
- ▶ No single mechanism universally applicable to all beneficiaries
- ▶ Beneficiaries-pay will require portfolio of finance mechanisms
- ▶ No existing agency has the authority or capacity to implement all of the finance mechanisms

Observations and Findings (Continued)

- ▶ No State policy to set a transparent, consistent cost allocation
- ▶ State and federal law and guidelines combined with constitutional constraints on local agency finance yield contradictory and undesirable outcomes
- ▶ Local RDs on average cover half of levee work costs
- ▶ State funding has shifted from the General Fund to voter-approved bonds
 - ▶ Bonds appear episodically or erratically

Findings from Archetypes on Cost Allocation

- ▶ Where agriculture dominates, agriculture could be responsible for a quarter to half of costs
 - ▶ Public beneficiaries generally cover the remainder
- ▶ For linear infrastructure, user fees could recover one-half to three-fourths of the costs
- ▶ In the conveyance corridor, water exporters could be responsible for greater than one-half
 - ▶ Based on BDCP reliability benefits and even small flood events

Findings from Archetypes (Continued)

- ▶ For urban areas, residential and commercial properties appear able to cover majority of costs
- ▶ For other beneficiaries e.g., recreational users or telecommunications, allocated cost shares less than 1%
- ▶ Benefit-cost ratios appear to justify further investment in flood risk reduction in most of the archetypes, but with caveats

Prospects for a Delta-Wide Assessment District

- ▶ A Delta-wide assessment district is likely infeasible (unless “assessment” means “Delta Protection Fee”)
- ▶ An Assessment District cannot and will not reach all beneficiaries
- ▶ Terms are very specific: Prop 218 etc.
 - ▶ An “Assessment” would still need to reflect the “special benefit” conferred to each parcel
 - ▶ Would not advance the beneficiary-pays principle

Existing Mechanisms

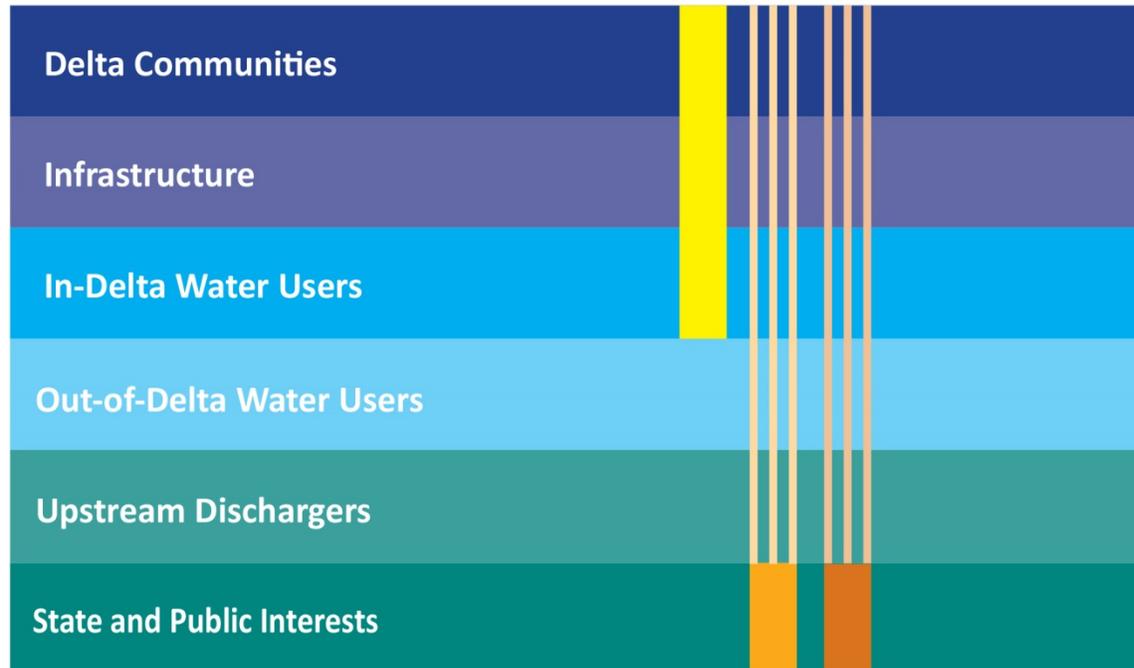
1. Assessments - for “local” share
2. Public Financing - for “public benefits”
 - ▶ State General Fund
 - ▶ State GO Bonds
 - ▶ Federal Funding

New, Feasible Mechanisms to Advance

1. Water Use Levy
 - ▶ Water User Fee
 - ▶ Water Exporter Fee or Lease Payment
2. Delta Flood Prevention Fee

CURRENT FINANCING

DELTA LEVEE BENEFICIARIES

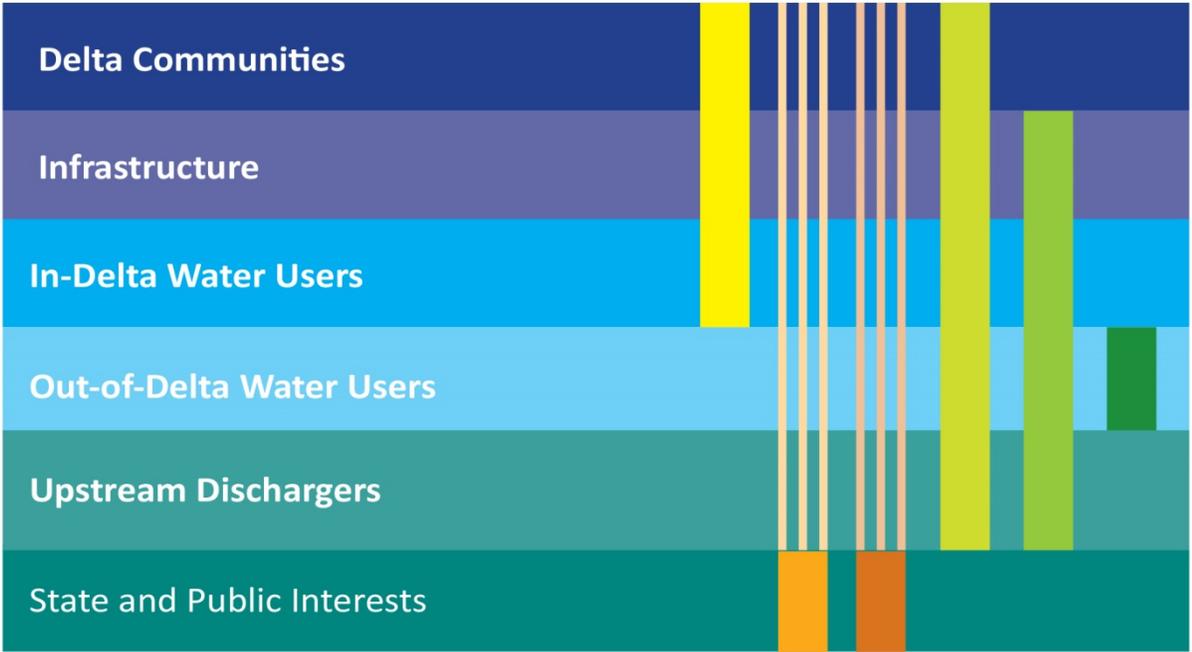


EXISTING MECHANISMS

-  Assessments (Reclamation District)
-  State General Fund
-  General Obligation Bonds
-  Taxes Paid - Not in proportion to benefit

POTENTIAL FINANCING STRATEGY

DELTA LEVEE BENEFICIARIES



FEASIBLE NEW MECHANISMS

- Delta Flood Prevention Fee
- Delta Water User Fee
- SWP/CVP Water Conveyance Fee

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Recommendations



Key Questions

- ▶ What are the legal restrictions and how would they be addressed?
- ▶ What agency/agencies would implement?
- ▶ Would new legislation be required?
- ▶ Would the improved fairness justify the political effort?
- ▶ Would the revenue justify the transaction costs?
- ▶ Is there sufficient stakeholder support?
- ▶ How can we muster and mobilize political will?

Next Steps - Implementation Study

- ▶ Collaborative effort: DPC, DWR, DSC, CVFPB as co-conveners
- ▶ Broad stakeholder representation
- ▶ Deliberation based on joint fact-finding
- ▶ Spell out details of each new mechanism:
 - ▶ How to calculate and apportion costs to the beneficiaries?
 - ▶ Define standards and principles for data gathering and use
 - ▶ Define cost allocation method and outline ways to resolve discrepancies with existing law

Final Report Contents

- ▶ Complete report will include background, methods, analysis, findings, and recommendations:
 - ▶ Best-fit financing options for each group of beneficiaries;
 - ▶ Identify options that most likely won't work;
 - ▶ Limitations of “beneficiaries-pay” financing
- ▶ Project Memoranda 1-8 will be included as appendices

Proposed Study Completion: Commission Action at November 17 Meeting

