



**Water Storage Investment Program: Consideration of Use of Remaining Funds for Existing Projects' MCEDs (Action Item)**

**Introduction**

The California Water Commission (Commission) administers the Water Storage Investment Program (WSIP) to fund the public benefits associated with water storage projects using funds from the Proposition 1, the Water Quality, Supply, and Infrastructure Improvement Act of 2014. Currently, seven projects have a WSIP maximum conditional eligibility determination (MCED), which is the amount of Proposition 1 funding potentially available to a given project. These projects are actively working to secure a formal WSIP award amount.

In January 2021, the Commission made decisions regarding available funding resulting from the withdrawal of the Temperance Flat Project from the WSIP. Two of the three projects that received less than their original request (Rank 3 projects) had their MCEDs adjusted to the original request amounts. Those two projects were the Kern Fan Groundwater Storage Project and the Willow Springs Water Bank Conjunctive Use Project. The Sites Project (also a Rank 3 project) was not adjusted because the project was in the process of changing the reservoir size and a decision to adjust the MCED at that time was premature. The Commission also adjusted all seven existing projects' MCEDs with a 2.5% inflation increase and held \$63.9 million aside for a possible second solicitation.

In February 2022, the Commission decided not to pursue a second solicitation immediately and instead directed staff to look into options for distributing the remaining \$63.9 million in funding to the existing WSIP projects' MCEDs.

**Summary of Issues**

Two main options exist to adjust the MCEDs for existing WSIP projects.

1. Adjust the MCEDs for all seven remaining projects based on inflation since 2015 (applicants were required by regulation to use 2015 dollars in their applications). Utilizing the full amount of remaining funds, this would amount to a 2.5% inflation increase.
2. Adjust the MCED for the remaining Rank 3 project, Sites Project, which received less than its original request, and distribute the remaining funds to the seven existing projects' MCEDs based on inflation increases since 2015. This inflation increase would amount to a 1.5% increase.

Both options would utilize all of the remaining \$63.9 million MCED. The Commission can also defer a decision to a future Commission meeting.

**Option 1:** The Program’s Technical Reference provided the Bureau of Reclamation’s Construction Cost Trends, or CCT, for indexing of costs. The composite CCT index for January 2015 was 383 and the index for October 2021 is 478, which is a 25% increase. The Commission approved a 2.5% increase to the existing projects’ MCEDs in January 2021 and an additional 2.5% increase would fall well within the level of inflation that occurred since 2015.

The Commission’s previous decisions and the additional 2.5% increase are shown in Table 1 below.

**Table 1. Additional 2.5% Inflation Adjustment**

Project Name	MCED 2018	January 2021 Rank 3 Adjustment	January 2021 Inflation Adjustment 2.5%	MCED 2021	Additional 2.5% Adjustment	Resulting 2022 MCED
Chino Basin Program	\$206,900,000		\$5,172,500	\$212,072,500	\$5,383,877	\$217,456,377
Harvest Water Program	\$280,500,000		\$7,012,500	\$287,512,500	\$7,299,070	\$294,811,570
Kern Fan Project	\$67,537,315	\$18,122,685	\$2,141,500	\$87,801,500	\$2,229,014	\$90,030,514
Los Vaqueros Reservoir	\$459,000,000		\$11,475,000	\$470,475,000	\$11,943,932	\$482,418,932
Pacheco Reservoir	\$484,550,000		\$12,113,750	\$496,663,750	\$12,608,785	\$509,272,535
Sites Project	\$816,377,686		\$20,409,442	\$836,787,128	\$21,243,486	\$858,030,614
Temperance Flat	\$171,330,000		--	--	--	--
Willow Springs Water Bank	\$95,405,999	\$27,884,001	\$3,082,250	\$126,372,250	\$3,208,208	\$129,580,458
<b>Total</b>	<b>\$2,581,601,000</b>	<b>\$46,006,686</b>	<b>\$61,406,942</b>	<b>\$2,517,684,628</b>	<b>\$63,916,372</b>	<b>\$2,581,601,000</b>

**Option 2:** Commission Resolution 2019-02, which was passed shortly after making MCEDs in 2018, states that if additional funds became available, the Commission’s preference was to consider adjusting MCEDs for Rank 3 projects to the original Applicant Request.

In January 2021, Staff recommended the Commission not adjust the Sites MCED because the Sites Project Authority was in the process of re-sizing the reservoir and the changes to the public benefits were uncertain. Since that time, the Site Project Authority released a Revised Draft EIR and a feasibility study. The feasibility study indicates that with the newly sized project, the public benefits associated with the project would equal \$841 million in 2015 dollars. This is \$25 million more than the original 2018 MCED. The Commission could “make the project whole” by increasing the MCED by that amount. Since the adjustment is to the 2018 MCED the adjustment should also reflect the 2.5% inflation increase from 2021. An adjustment to the Sites Project would result in a rank 3 adjusted MCED as shown in Table 2 below.

**Table 2. Rank 3 Adjustment for Sites Reservoir**

MCED 2018 (Table 1)	January 2021 2.5% Inflation adjustment (Table 1)	Rank 3 Correction	2.5% inflation on Rank 3 Correction	Rank 3 Corrected MCED
\$816,377,686	\$20,409,442	\$25,000,000	\$625,000	\$862,412,128

After using \$25M for the rank 3 adjustment, approximately \$38 million would remain. This amount could be applied to all seven projects’ MCEDs as an inflation increase of about 1.5%. This is shown in Table 3 below.

**Table 3. 1.5% Inflation Adjustment after Rank 3 Adjustment**

Project Name	MCED 2021	Additional 1.5% inflation increase	Resulting 2022 MCED
Chino Basin Program	\$212,072,500	\$3,192,905	\$215,265,405
Harvest Water Program	\$287,512,500	\$4,328,709	\$291,841,209
Kern Fan Project	\$87,801,500	\$1,321,915	\$89,123,415
Los Vaqueros Reservoir	\$470,475,000	\$7,083,343	\$477,558,343
Pacheco Reservoir	\$496,663,750	\$7,477,633	\$504,141,383
Sites Project	\$862,412,128*	\$12,984,241	\$875,396,369
Willow Springs Water Bank	\$126,372,250	\$1,902,626	\$128,274,876
Total	\$2,543,309,628	\$38,291,372	\$2,581,601,000

\*Adjusted for Rank 3 correction per Table 2.

**Commission Decision**

The Commission can decide:

- to adjust MCEDs for the seven existing projects with an inflation increase of approximately 2.5%.
- make whole the remaining Rank 3 project (Sites Reservoir Project) and use the remaining funds as a 1.5% inflation increase to the seven existing projects’ MCEDs; or

Agenda Item: 9

Meeting Date: March 16, 2022

Page 4

- defer the decision to a future meeting.

### **Background**

Through the WSIP, the Commission will invest nearly \$2.6 billion in the public benefits of water storage projects, consistent with the requirements of Proposition 1 (the Water Quality, Supply, and Infrastructure Improvement Act of 2014), Chapter 8. In July 2018, the Commission made MCEDs, decisions that set the amount of Proposition 1 funding potentially available to a given project. Since then, one applicant withdrew from the program. In early 2021, the Commission decided to adjust two project MCEDs to their initially requested amounts. Additionally, the Commission made a 2.5 percent inflation adjustment to all seven project MCEDs. The seven remaining applicants are working to complete the Proposition 1 requirements, which include obtaining permits and final environmental documents, contracts for the administration of public benefits, and contracts for non-public benefit cost share before returning to the Commission for a final award hearing.

This agenda item implements Goal Four of the Commission's Strategic Plan, which calls on the Commission to carry out its statutory responsibilities for the Proposition 1 Water Storage Investment Program.

### **Meeting Overview**

At the meeting, Commission staff will brief the Commission on options for distributing the remaining funds to the existing projects.

This is an action item.

### **Contact**

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