

DRAFT TECHNICAL MEMORANDUM

CH2MHILL

## Safe, Clean, and Reliable Drinking Water Supply Act of 2010 (SBX7-2): Defining Public Benefits

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This memorandum attempts to clarify the definition of “public benefit” for the purpose of public financing of water projects under SBX7-2. Section 79743 dictates a role for these public benefits in financing of certain water projects.

79743(a) Funds allocated pursuant to this chapter may be expended solely for the following public benefits associated with water storage projects:

- (1) Ecosystem improvements, including changing the timing of water diversions, improvement in flow conditions, temperature, or other benefits that contribute to restoration of aquatic ecosystems and native fish and wildlife, including those ecosystems and fish and wildlife in the Delta.
- (2) Water quality improvements in the Delta, or in other river systems, that provide significant public trust resources, or that clean up and restore groundwater resources.
- (3) Flood control benefits, including, but not limited to, increases in flood reservation space in existing reservoirs by exchange for existing or increased water storage capacity in response to the effects of changing hydrology and decreasing snow pack on California’s water and flood management system.
- (4) Emergency response, including, but not limited to, securing emergency water supplies and flows for dilution and salinity repulsion following a natural disaster or act of terrorism.
- (5) Recreational purposes, including, but not limited to, those recreational pursuits generally associated with the outdoors.

Traditionally, principles of economic evaluation and cost allocation have drawn a distinction between categories of benefits (often called project purposes) and categories of beneficiaries. For example, one beneficiary may receive more than one category of benefits, such as an SWP water contractor that receives both water supply and water quality benefits from a new facility. Conversely, the same category of benefit, say water quality improvement, may accrue to a number of beneficiaries. It could reduce the treatment costs to a local municipal water supplier, improve irrigation water quality to a group of private landowners, and improve ecosystem conditions for an endangered species. The first two beneficiaries have been viewed as private or local entities, whereas the beneficiaries of endangered species improvement have been viewed as the public at large.

We have considered the intent of section 79743(a) in the context of other language in the legislation and relative to standard practice for economic evaluation and cost allocation. In this stage of the process, we recommend that no economic benefits within the five categories above be categorically excluded as a potential “public benefit.” Therefore, the scope of “public benefits” may include any benefits identified within the five categories above.

However, standard practice and “beneficiary pays” principles suggest that the Commission, in its duties under SBX7-2, may want to consider what portion of the benefits within the five categories are private or local benefits and allocate costs accordingly. (see Section 79745(2): “The benefits available to a party shall be consistent with that party’s share of total project costs”). That is, some benefits will accrue to an identifiable subgroup of Californians, and there may be interest in recovering costs from this subgroup as opposed to the State as a whole. Also, there may be instances when “public benefits” accrue to members of the public who are not Californians. The Commission may want to know what share of benefits accrue to Californians, and what share to others outside the State.

Therefore, we propose that one of the criteria used to assess the “methods for quantification and management of public benefits” described in Section 79744 should be whether the method includes information that might be used by the Commission to identify shares of the benefits that 1) might be considered as private or local, or 2) might be identified as benefits to non-Californians. In this way, the methods will provide maximum flexibility for estimation of benefit shares that may be eligible for public funding under the Act.

In addition, some share of costs eligible for funding under the Act might also be eligible for funding by the federal government. The methods should provide information regarding potential funding from other sources to enable the Commission to better determine how much State funding should be provided.