

# Evaluating Public Benefits of Water-Related Investments

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LEGISLATIVE ANALYST'S OFFICE

Presented to:  
California Water Commission





## Overview of LAO Presentation

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- The Public Purposes of Water-Related Investments.**
- Separating Public and Private Benefits.**
- Challenges and Best Practices for Evaluating Public/Private Cost Shares.**



## The Public Purposes of Water-Related Investments

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- ☑ ***Water-Related Activities With a Public-Purpose Component.*** Water-related activities that have a significant public-purpose component can be consolidated into the following five main categories:
  - Planning and efficient management of the statewide water system.
  - Broadening access to necessary water services.
  - Ecosystem improvements.
  - Management of water-related risks and major public emergencies.
  - Water system changes that improve recreational opportunities.
  
- ☑ ***Statutory Definitions Should Guide Use of State Funds.*** We have recommended in the past that the Legislature define what activities, from its policy perspective, are appropriately supported—in full or in part—with state public funding and which are not. To ensure that private and non-state governmental beneficiaries of a water activity pay their appropriate share of costs, the Legislature should consider providing statutory definitions of how to apply or define:
  - The “beneficiary pays” principle.
  - The “polluter pays” principle.
  - Private/nonstate benefits (with specific examples).



## Separating Public Benefits From Private Benefits

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- ☑ ***State Water Project Financing Applies Beneficiary Pays Principle...*** The beneficiary pays principle provides that the costs of a project should be borne proportionately by those who directly benefit. The financing of the State Water Project (SWP) is an example of the application of the beneficiary pays principle and illustrates the separation of public and private benefits. Roughly 97 percent of the project's construction and operational costs have been user-funded. The remainder of SWP costs are paid for by the state because they reflect benefits—public recreation and fish and wildlife enhancement—that are of broad public benefit and are therefore funded appropriately by state public funds.
  
- ☑ ***...But Highlights Some Challenges.*** The SWP also illustrates some of the challenges associated with attempting to identify beneficiaries. A single aspect of a project may have beneficiaries that are primarily private, primarily public, or simultaneously private and public. For example, recreational improvements required by the Federal Energy Regulatory Commission as a regulatory requirement in the licensing process can be considered to reflect either mainly public benefits, mainly private benefits, or both public and private benefits.
  
- ☑ ***Legislative Direction Can Clarify Public and Private Benefits.*** The Legislature can provide specific direction on which categories of actions can be deemed entirely private or entirely public benefits, as it did regarding conveyance in Chapter 3, Statutes of 2009 (SBX7 2, Cogdill)—the water bond planned to be put on the November 2012 ballot.



## Challenges and Best Practices for Evaluating Private/Public Cost Shares

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***Accurate Valuation of Benefits Is Necessary, but Challenging.***

If the costs of a project are apportioned according to the proportion of benefits accruing to private and public parties, then evaluating the share of a project that is private or public depends on accurate valuation of the benefits. But there are several challenges in making such a valuation:

- Comparing diverse types of projects.
- Estimating non-market benefits.
- Projecting benefits into the future.
- Determining a baseline against which net improvements are measured.



***Important Features of Any Valuation Process.*** Any process used to value the public and private benefits of water-related investments should have the following characteristics:

- Consistent methodologies across projects.
- Ability to adapt to new private or public benefits.