

Memorandum

Date: February 10, 2012

To: Members of the California Water Commission

From: Sue Sims, Executive Officer
Department of Water Resources
California Water Commission

Subject: Response to questions regarding Tools and Methods for Quantifying Public Benefits

In response to questions at our January 2012 meeting on ability to pay, the following information was provided by DWR staff and Steve Hatchett, the consultant working with the department on the public benefits of storage regulations issue:

This memo attempts to address concerns raised during the January 18, 2012 meeting about return on investment and value in the SBX7-2 Economic Methods report.

The Act states:

Projects shall be selected by the commission through a competitive public process that ranks potential projects based on the expected return for public investment as measured by the magnitude of the public benefits provided.

We have interpreted this mandate to mean that expected public benefits would be quantified and the Commission would rank projects according to those benefits relative to the costs. We recognize that a number of ways exist to compare benefits and costs, including rate of return, B/C ratio, and net benefits. Our specific task in the report is to develop methods to quantify public benefits. We agree that public benefits' quantification should be adjusted for any monetary or non-monetary costs that are not included in the public or private/local cost share, yet are required to obtain those benefits.

The draft report discusses how Californian's benefits might be distinguished from non-Californians. This does not mean that benefits to non-Californians are unimportant, nor does it mean that only things affecting humans directly are important. It simply points out that others outside California also value the public benefits, and the Commission can consider that when apportioning California taxpayers' limited public funds. This may not be a significant issue in many cases.

Public benefits may include benefits that cannot be monetized and the Commission can consider other aspects of proposed projects that may be difficult to quantify, such as equity, health, safety, aesthetics and quality of life. Tribal concerns and environmental justice are other examples. The report focuses on quantifiable aspects of the five authorized public benefits, and has not tried to describe these other values.

The issue of *ability to pay* as versus *willingness to pay* was also raised during the meeting. *Ability to pay* can be used as either a general concept or as a very specific concept. For example, the U.S. Bureau of Reclamation defines and calculates ability to pay specifically for irrigation water as part of its financial analysis in Feasibility Studies, and can reduce a portion

of irrigation's repayment responsibility accordingly. However, more generally, ability to pay can express the concept of affordability when determining public (in this case State) cost sharing. Affordability of a local cost share may be part of what the Commission wants to consider as it evaluates and ranks projects, but that is outside the scope of our report.

We have added some additional explanation to address these points in the report. Let us know if any further response or discussion is needed to clarify what the report includes or does not include.