

# Economic and Fiscal Impact Analysis for the Proposed Regulation for the Water Storage Investment Program in Support of the Economic and Fiscal Impact Statement

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*Attachment to the Standard Form 399*

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PREPARED FOR CALIFORNIA WATER COMMISSION  
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## **Introduction**

The Water Quality, Supply, and Infrastructure Improvement Act of 2014 (the Act) was passed by the Legislature in September 2014 and subsequently passed by California voters as Proposition 1 in November 2014. The proposition authorized the State to issue general obligation bonds to support a variety of water management activities. Chapter 8 authorized and continuously appropriated \$2.7 billion for investments in public benefits of water storage projects and designated the California Water Commission (Commission) as the agency responsible for appropriately allocating these funds. The Commission, through the Water Storage Investment Program (WSIP or Program), will fund the public benefits of these projects.

Fundable public benefits fall in five categories defined in Chapter 8 of the Act: ecosystem improvements, water quality improvements, flood control, emergency response, and recreation. Projects will be selected for funding through a competitive process based on information provided in application packages that demonstrate public benefits and satisfy a number of other requirements set out in the Water Code. Chapter 8 mandates that the Commission develop and adopt, by regulation, methods for quantification and management of public benefits (Water Code section 79754). Per Water Code section 79754, the regulation shall also include the priorities and relative environmental values of ecosystem benefits and water quality benefits, as provided by the California Department of Fish and Wildlife (CDFW) and the State Water Resources Control Board (State Water Board). The Commission has developed a proposed regulation to implement this mandate, and to define other requirements of the application preparation, review, and funding process.

As required by the Administrative Procedures Act, the rulemaking agency (the Commission) must provide an assessment of the fiscal impacts its regulation would have on State and local governments (Government Code section 11346.5) and to “assess the potential for adverse economic impact on California business enterprises and individuals” (Government Code section 11346.3). The economic and fiscal impacts of the proposed regulation must be estimated and provided with the proposed rulemaking package. The analysis is summarized in STD Form 399 and provided to the California Department of Finance for its review prior to approval of the proposed regulation.

This report provides the basis for information provided in the STD Form 399. This analysis addresses the regulation proposed under California Code of Regulations Title 23, Waters; Division 7, California Water Commission; Chapter 1, Water Storage Investment Program (referred to throughout this report analysis as the proposed regulation).

## **Summary of WSIP Regulation Requirements, Processes, and Outcomes Potentially Resulting in Economic and Fiscal Impacts**

The proposed regulation satisfies the legislative and voter direction to develop and adopt a regulation on methods to quantify and manage public benefits of water storage projects. It also describes the process the Commission will use to solicit applications, review applications, and award bond funds to projects.

The proposed regulation does not authorize the \$2.7 billion of funding; nor does it specify when or where in the State the funds will be spent. The location and timing of spending will depend on what projects choose to apply for funds, are deemed eligible according to Proposition 1, and are chosen through the competitive process required by Water Code 79750(c)). Spending of bond revenues is not expected until fiscal year (FY) 2018/19. Considering the requirements of the Act and other planning and permitting requirements, funding and construction of projects could begin in FY 2018/19 or FY 2019/20, or even later depending on the size or complexity of funded projects.

The regulation itself does not initiate a mandate for planning studies for eligible projects. Rather, most planning studies, feasibility studies and environmental documentation in particular, are required by the legislation and California Environmental Quality Act (CEQA). Feasibility studies normally include a quantification of benefits, project costs, and a cost allocation. Therefore, even costs of quantifying public benefits cannot all be assigned to the regulation alone. However, because feasibility studies vary in their degree of detail, this cost analysis considers all potential quantification costs.

The following summarizes the sections of the proposed regulation and the potential categories of economic and fiscal impact.

- Article 1. Section 6000. Definitions clarify how words and phrases are used in the regulation.
- Article 2. Section 6001. General Provisions describe eligibility criteria.
- Article 2. Section 6002. General Selection Process includes evaluation considerations and the Commission's review and selection process.
- Article 2. Section 6003. Funding Commitments describes how the Commission will provide funding to selected projects.
- Article 3. Section 6004. Requirements for the Quantification of Benefits describes how public benefits and project costs should be quantified in physical and monetary terms.
- Article 3. Section 6005. Priorities provides the ecosystem priorities developed by CDFW and the water quality priorities developed by the State Water Board.
- Article 3. Section 6006. Relative Environmental Values provides the factors that will be used by CDFW and the State Water Board to determine the relative environmental value of the ecosystem and water quality benefits.
- Article 3. Section 6007. Managing Public Benefits describes what assurances should be provided and the plan for monitoring, assurances and reporting the public benefits provided by a project.

Costs potentially resulting from the WSIP regulation are:

- Costs to local agencies and other applicants to prepare information, submit applications, and respond to requests for further information.
- Costs to local agencies and other applicants to attend meetings and workshops, and, if selected, to meet requirements for successful applicants.
- Costs to the Commission and its staff to prepare and conduct the application solicitation.
- Costs to the Commission and its staff to review applications.

- Costs to the Department of Water Resources (DWR), State Water Board, CDFW, and other State agencies participating in the review process.
- The application and review process may indirectly result in costs to some private individuals and businesses through assessments, user fees, rates, or other mechanisms that the local proposing agencies use to fund application activities.

This document concludes:

- The regulation does not impose a mandate on any private individual, business or local government. Participation in a WSIP funding request is entirely voluntary. Participation is open to local public agencies, and certain private organizations including mutual water companies and non-profit organizations as defined in the Act.
- Costs will depend on the number of applicants that choose to participate in the Program. Based on an estimate of the probable range of applicants, costs to applicants resulting from the regulation could range from under \$3 million to nearly \$6 million over a four year period, and costs to state agencies for review of applications and interactions with applicants would be about \$5 million.
- The proposed regulation will not result in a significant or permanent change in the number of jobs within the state.
- No creation or elimination of businesses within the state would occur as a result of this proposed regulation.
- The proposed regulation would not affect the competitive advantages or disadvantages of businesses within the state.
- The proposed regulation would not significantly affect investment in the state.
- Incentives for innovation in business products, materials, or processes would not be affected.

## **Description of Costs of WSIP Regulation**

This section qualitatively describes the fiscal and economic costs of the WSIP regulation, the scope of potential costs, and the costs to local governments, state agencies, and private interests.

### **Scope of Costs of the WSIP Regulation**

The Act requires that “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.” The Act does not specify how the magnitude of public benefits should be determined; rather, it requires that the Commission develop and adopt, by regulation, methods for quantification and management of public benefits (Water Code section 79754). Also, the regulation must include the priorities and relative environmental values of ecosystem benefits and water quality benefits, as provided by CDFW and the State Water Board. The regulation itself does not authorize the issuance or spending of general obligation bond funds. Nor does it require planning studies and environmental documentation. Rather, it provides the quantification methods, priorities and

relative environmental values, and it describes the project application, evaluation, and selection process.

## Description of Reasonable Alternatives

The scope of costs required by the regulation is defined by the range of possible alternatives for implementing the regulation. The regulation was developed by Commission staff using a public process that accepted input from a Stakeholder Advisory Committee (SAC), the Commission, and the public. The general questions for the Commission, SAC, and agencies (CDFW and the State Water Board) were:

- How detailed should the methods, priorities, and environmental values be?
- How flexible versus prescriptive should the quantification methods be?
- What types of methods might be required as opposed to recommended?

A range of alternatives for the regulation was considered. If the regulation required a low level of detail, and provided a high level of flexibility and no required methods, then the costs of developing an application would be lower, but the costs of evaluating the applications could be higher, and the potential for selection of projects that do not maximize “expected return for public investment” would be increased.

If the regulation required a high level of detail and highly prescriptive methods, then application costs would be increased, and costs of evaluating projects might be less, but the effect on the quality of the project selection process is uncertain because:

- A high level of detail and prescriptive methods might not be justified by the quantity and quality of information available;
- Prescriptive methods might not be appropriate for some project’s public benefits
- Prescriptive methods might not work where physical or monetary benefits cannot be reliably quantified.

Alternatives to the regulation proposed include application of a more prescriptive or less prescriptive (i.e., performance-based) approach to developing the requirements of the regulations. Alternatives 1 (More Prescriptive) and 2 (Less Prescriptive) are described in more detail in the Initial Statement of Reasons. In addition, a least prescriptive alternative is used as a baseline against which costs and economic and fiscal impacts are assessed.

### Alternative 1 – More Prescriptive Regulation

Alternative 1 would include more prescriptive requirements than what is included in the current proposal. This alternative would include identifying specific datasets, methods, and models acceptable for use in the applicant’s benefit and cost analysis. A very prescriptive approach would ensure that all project analyses were conducted consistently by project applicants and all results could be directly compared. However, variability in potential project size, type, and location made selection of a specific standard impractical. Selecting a specific standard could unfairly bias the selection process to a specific type and size of project or capability of applicant, particularly if the standard required very expensive

analysis. Overall costs to applicants would likely rise, especially if the prescriptive requirements were quite stringent and expensive to implement. In addition, a prescriptive approach could force some applicants to use analytical tools and develop data sets that may not work well for their project conditions. The Commission members and most stakeholders preferred a more performance-based standard that allows applicants to determine the most appropriate datasets, methods, and models for their project-specific analysis.

## **Alternative 2 – Less Prescriptive Regulation**

Alternative 2 would include less prescriptive requirements than what is included in the current proposal. This Alternative would allow for the most flexibility for applicants to determine datasets, methods, and models for use in their benefit and cost analysis. A less prescriptive approach for the regulation would result in large variations in project analysis between the applications and comparison of projects would be challenging. For example, without specifically requiring that applicants report benefits and costs in 2015 dollars using a consistent discount rate, applicants could choose their own constant dollar year and rate, so applications would not be comparable. Quantification results presented in applications would have to be adjusted or manipulated by the review team to develop comparable data. This could lead to challenges of the project analysis if an applicant felt the modifications were incorrect. This Alternative could potentially reduce some quantification costs to applicants. However, shifting the responsibility of analytical consistency to Commission staff and other agencies participating on the review team would likely increase their costs substantially.

## **Baseline for Analysis – Least Prescriptive Regulation**

Costs and impacts are estimated relative to the least regulatory direction on quantification methods and application process. This is consistent with Government Code section 11346.3(e) “The baseline for the regulatory analysis shall be the most cost-effective set of regulatory measures that are equally effective in achieving the purpose of the regulation in a manner that ensures full compliance with the authorizing statute or other law being implemented or made specific by the proposed regulation.” The baseline alternative is an extreme case of Alternative 2 above, in which little or no direction is given or requirements imposed on how applicants report quantified benefits. For purposes of analysis, we assume that applicants would be asked simply to provide their already-drafted environmental, feasibility, and financial analysis, and projects would be selected and funded projects solely on that basis – in other words, the regulation would impose no additional costs on applicants other than minor submittal and process costs. Staff and the Commission would determine the project’s improvement to the State water system, measurable improvements to the Sacramento-San Joaquin Delta (Delta) or tributaries to the Delta, and other requirements of the Act. The problems of inconsistency and cost to the State’s reviewers, as described in Alternative 2, would be even greater under this baseline.

## **Proposed Regulation**

The proposed regulation relies on performance standards for benefits quantification rather than prescribing specific physical and monetary quantification methods. It defines a set of steps applicants must take to quantify benefits that are standard in water resources development projects and environmental impact analysis. Within this framework, the regulation allows applicants to select the

most appropriate, specific quantification method based on their project’s circumstances (location, size, and available data). Monetary quantification of benefits known to be hard to quantify, such as fish population or survival, is not required. Rather, applicants are allowed to provide measures such as operations plans, the amount of water provided, and the amount of habitat created. It allows different physical and economic quantification methods to be used in different situations, and it encourages applicants to provide results from multiple methods, but it requires common assumptions and measures where the necessary information is readily available and not difficult to apply.

Some potentially eligible projects already have a high level of information developed, including feasibility studies and environmental documentation. These costs cannot be assigned to the regulation. For projects that have not already completed feasibility studies and environmental documentation, feasibility and environmental studies are required by the Act and other existing laws and not the regulation, so again, their cost cannot be assigned to the regulation.

The costs of the selected regulation are judged against the least prescriptive regulation alternative. Table 1 summarizes the provisions in the proposed regulation and how they would affect costs to applicants and the State.

**Table 1. Costs and Benefits of the Regulation**

<b>Regulation Section Number</b>	<b>Section Name and Description</b>	<b>Potential Cost or Benefit to Applicants or the State</b>
6000	Definitions	No cost.
6001	General Provisions. Confidentiality statement and summary of eligibility.	No cost.
6002	General Selection Process. Describes pre-application, full application, completeness review, technical and peer review, and selection process.	Costs to applicants to prepare pre-application and full application, and respond to requests for additional information. Costs to State to conduct application process, review process, and select projects for funding. Benefit of fair and open process.
6003	Funding Commitments	Costs to applicants to provide required information and progress reports. Costs to State to review information and make initial and final funding commitments.
6004	Requirements for the Quantification of Benefits	Costs to applicants to quantify benefits, calculate costs, determine cost shares, assess uncertainty, and provide documentation consistent with regulation. Benefit of consistent and high quality quantification of project benefits by all applicants. Assists Commission

Regulation Section Number	Section Name and Description	Potential Cost or Benefit to Applicants or the State
		to select projects with greatest benefit to the State.
6005	Priorities of CDFW and State Water Board, as required by the Act.	<p>Minor costs to applicants to describe how project addresses the priorities. Could induce applicants to change proposed project, but that is not required.</p> <p>Costs to State for CDFW and State Water Board to review applications relative to the priorities.</p> <p>Benefit of making clear to Commission, agencies, and public how each project is consistent with priorities.</p>
6006	Relative Environmental Values of CDFW and State Water Board, as required by Act.	<p>Minor costs to applicants to describe how project addresses the factors used to determine the relative environmental values. Could induce applicants to change proposed project, but that is not required.</p> <p>Costs to State for CDFW and State Water Board to evaluate and determine relative environmental values.</p> <p>Benefit of making clear to Commission, agencies, and public the relative environmental values of each project.</p>
6007	Managing Public Benefits	<p>Costs to applicants to provide required operations plan, monitoring and reporting plan, assurances, and annual reporting.</p> <p>Costs to State to review plans and monitor operations.</p> <p>Benefit to the State by allowing it to monitor results and assure that the project is operated to provide the promised benefits.</p>

**Estimation of Costs**

**Costs to Local Agencies and Other Applicants to Participate in WSIP Application Process**

Participation in the WSIP is voluntary – no local agency or private party is required to submit any proposal or bear any cost. For purposes of analysis, we have developed a range of possible numbers and sizes of projects based on interest expressed during numerous stakeholder meetings and a Commission survey of potential interested parties. We assume two categories of application are received, representing a range of size and complexity of project. More complex projects are those that will use system-wide analysis and large-scale models, such as DWR’s and the U.S. Bureau of Reclamations’ CALSIM II operations model, to analyze benefits and impacts. The surface storage projects identified in the CALFED Bay-Delta Record of Decision, as identified in section 79751(a) of the Act are in this

category. Less complex projects would include local surface storage, groundwater storage, conjunctive use, and reservoir reoperation projects, whose analysis would cover a more restricted geographic area. Note that these categories are not part of the regulation, nor does the regulation prescribe separate requirements based on project complexity. Rather, these categories are used to estimate the range of potential costs to applicants.

The CALFED projects have already substantially completed most of the planning studies required for a WSIP application, including a feasibility studies and public draft environmental documentation. Additional costs will be required to modify these documents and provide additional information to meet the requirements of the proposed regulation, and to participate in the application process.

We assume that the small projects do not have completed feasibility or draft environmental studies. However, the costs of such studies would already be required by the Act, CEQA, and standard project planning; there would not be new requirements imposed by the proposed regulation. Their incremental cost of meeting the regulation's requirements would likely be less than for the large projects, both because of the level of analysis required and because no previously completed feasibility or environmental documents would need to be modified.

The number of applications that will be received is unknown at this time. The Commission issued a widely-distributed request for interest among water agencies and other groups. Of the more than 150 respondents, staff determined that only about 25 likely qualified as potentially eligible projects under the requirements of Act. And of these, not all will finally decide to apply. For purposes of analysis, we have developed a range of potential applicants ranging from 10 (2 complex and 8 other projects) to 20 (4 complex and 16 other projects). Of the more complex projects, we assume that all can advance to the full application phase. For the less complex projects, we assume that one fourth would withdraw after the pre-application screening.

The proposed regulation's specific set of information, steps, and required analysis has no exact precedent to use for estimating application costs. The Commission has requested that potential applicants who participated in the SAC during development of the proposed regulation provide an estimate of what they think the regulation would cost them to comply. As of the time that this analysis is being written, no estimates have been received from agencies or groups represented on the SAC and familiar with details of the proposed regulation. One estimate was received from a small municipal provider, but it did not appear to be based on a careful analysis of the quantification and process requirements contained in the proposed regulation.

However, some information was provided by recent Integrated Regional Water Management (IRWM) grant application processes. The IRWM program encourages projects that provide a range of public and non-public benefits, including the benefit categories considered in the WSIP. In order to demonstrate value for taxpayer money, Rounds 1 and 2 of the IRWM program funded by Proposition 84 bonds have required applicants to describe, and quantify where possible, the physical and monetary benefits provided. Although the projects and amount of funding were relatively small in comparison to the WSIP, multiple projects were included in each IRWM grant application.

The Roundtable of Regions conducted a survey of applicants for recent IRWM implementation grants (ROR, 2014). Based on those responding to the survey, the average cost of a grant application was over \$100,000. Virtually all IRWM applications included multiple projects for funding, ranging from 2 to more than a dozen projects within each application. However, most WSIP projects are expected to be larger, and a few substantially larger, in scope and total cost than projects submitted as part of an IRWM application. In addition, the proposed regulation requires a more rigorous analysis and quantification of benefits in order to meet the requirements of the Act. Therefore, for purposes of this cost analysis, we assume that the costs to comply with the requirements laid out in the proposed regulation would be up to four times the costs incurred for the average IRWM application.

Specifically, we assume that the incremental costs required to complete an application through the pre-application stage could range from \$25,000 to \$50,000 per application, depending on size and complexity. This would include the costs of the pre-application itself plus any costs of the full application completed up to that point in time. If the applicant proceeds to the full application, the incremental cost of completing is assumed to range from \$150,000 to \$400,000 per application. The range of cost is intended to represent the complexity of the project and therefore the scope of additional analysis required for an applicant to demonstrate and quantify the range of public and non-public benefits. The low-cost category would be typical of a less complex project, though some applications may be completed at lower cost than this. Similarly for complex projects, \$400,000 per application is estimated as typical for this category, though some could cost more or less than this. Although all applicants would be subject to the same standards for quantification and documentation, projects would nevertheless vary in the analysis needed to demonstrate benefits and cost shares. This variation would result from the project’s overall size (storage capacity and cost), the number of public and non-public benefits it provides, and whether the proposed project would have an effect on the operation of the State Water Project or Central Valley Project. For example, the CALFED surface storage projects identified in Water code section 79751(a) would be considered complex projects.

The range of potential application costs for local agencies and other applicants is summarized in Table 2 below. Total application costs are estimated to range from \$2.0 to 4.0 million. This cost would be incurred largely within the first year following approval of the proposed regulation, assuming that the application process is initiated at that time.

**Table 2. Estimated application preparation costs for project applicants**

	Small Number of Applications		Large Number of Applications	
	More Complex Projects	Less Complex Projects	More Complex Projects	Less Complex Projects
Cost per pre-application	\$50,000	\$25,000	\$50,000	\$25,000
Number of pre-applications	2	8	4	16
Cost of all pre-applications	\$100,000	\$200,000	\$200,000	\$400,000

	Small Number of Applications		Large Number of Applications	
	More Complex Projects	Less Complex Projects	More Complex Projects	Less Complex Projects
Cost per full application	\$400,000	\$150,000	\$400,000	\$150,000
Number of full applications	2	6	4	12
Cost of all full applications	\$800,000	\$900,000	\$1,600,000	\$1,800,000
Total cost	\$900,000	\$1,100,000	\$1,800,000	\$2,200,000
Total cost, all applicants		\$2,000,000		\$4,000,000

### Costs to Local Agencies and Other Applicants, if Selected, to Meet Requirements for Successful Applicants

If the Commission provides an initial funding decision, then additional costs will be required, including costs to update project costs and benefits estimates if needed. These costs would only be incurred by successful applicants, and would be relatively small compared to the full application costs. For estimation purposes, we assume that four (4) applications would be funded, each of which would incur an average additional cost of \$50,000 to provide the additional information required to demonstrate completion of the requirements to receive bond funds. These costs totaling \$200,000 are expected to occur in FY 2018/19 or later.

### Costs to State Agencies to Conduct the Application Solicitation and Review Process

The regulation requires a pre-application and a full application process and technical and independent peer review. Costs to State agencies will be for the application process, evaluating applications, costs for staff to monitor progress after the initial funding decision, and general administrative costs. Agencies with staff participating would be the Commission, DWR, CDFW, and the State Water Board.

DWR has provided its costs for the application process, evaluation, selection and funding decisions required for Round 2 of the Proposition 84 IRWM Implementation Grants. These costs were incurred over a period from 2012-2014. Although IRWM grants were of a much smaller scale than some of the expected WSIP funding requests, there were more applications received for IRWM grants (38 applications were reviewed in Round 2) than are expected for WSIP. In addition, each IRWM application included multiple projects, resulting in DWR staff reviewing information for well over 100 projects. Although the two programs (WSIP and IRWM) are not a perfect match, the IRWM program likely provides the best available model on which to base an estimate of the State's WSIP review cost.

DWR (2015) estimates that its total cost to implement Round 2 of the Proposition 84 IRWM grant application process was about \$0.55 million dollars for about 2.5 person-years of effort and travel costs

(approximately \$220,000 per person-year). Given the complexity of the projects and analysis expected for WSIP applications, it is assumed that 4 person-years of DWR effort will be required for the WSIP process, including review of 20 applications, for a cost of \$0.88 million, which is above and beyond costs required for the least prescriptive regulation. CDFW and the State Water Board are each estimated to require up to 3 person years to participate in the review process and assess projects relative to the priorities and relative environmental values. Those two agencies are still evaluating their total costs to participate, but based on these estimates, we assume that each agency will incur about \$0.6 million of cost. Additional costs for Commission staff and for the independent peer reviewers and other consultants are estimated to be \$1.61 million, including 3 person years of staff time at \$0.66 million and \$0.95 million for outside services. This brings the total expected cost to the State to about \$3.81 million to conduct the process, including review of 20 applications. Fewer applications would reduce this cost somewhat, although a portion of the State's costs would not change based on number of applications. Total costs are estimated to drop to about \$2.86 million if the smaller number of applications are received (10 pre-applications and 8 full applications).

Most of the State's costs would be expended in the application, evaluation, and selection process during FY 2016/17 and FY 2017/18. After that time, WSIP costs will be required to review information provided by applicants of selected projects as they progress toward permits, financial commitments, and final documentation.

### **Costs to Some Private Individuals and Businesses Who Indirectly Fund Application Activities**

Private businesses and individuals are not directly affected by costs of the WSIP regulation. However, they are likely to bear costs passed on from agencies in the form of assessments, rates, fees, or other charges. They could also be affected indirectly through costs or benefits that accrue to them as a result of the changes in water supply reliability, ecosystem restoration, flood risk, or land use policies attributed in whole or in part to the regulation, as distinct from the Act. While these impacts are real economic costs and benefits, without details of specific cost recovery mechanisms they are difficult to quantify with respect to the impacts of the regulation.

### **Summary of Costs**

Table 3 summarizes the costs by category and year. The current program plans to initiate the application process as soon as practical after the approval of the proposed regulation (expected in December 2016). Costs to both applicants and the State are assumed to occur 40 percent within FY 2016/17, 50 percent within FY 2017/18, and 10 percent within FY 2018/19.

**Table 3. Estimated total costs by year**

	<b>FY 2016/17</b>	<b>FY 2017/18</b>	<b>FY 2018/19</b>
	<b>Small Number of Applicants</b>		
Costs to Applicants	\$880,000	\$1,100,000	\$220,000
Costs to State	\$1,143,000	\$1,428,750	\$285,750
Total Cost	\$2,023,000	\$2,528,750	\$505,750
	<b>Large Number of Applicants</b>		
Costs to Applicants	\$1,680,000	\$2,100,000	\$420,000
Costs to State	\$1,524,000	\$1,905,000	\$381,000
Total Cost	\$3,204,000	\$4,005,000	\$801,000

## **Other Impacts of WSIP Regulation**

The proposed regulation does not impose a reimbursable mandate on any local agency or school district. Participation in the WSIP by local agencies is voluntary. The regulation is required as part of Proposition 1 passed by the voters of California in November 2014.

## **Funding of Costs to State Agencies**

Section 79703 of the Act provides funding from proceeds of the authorized bonds to cover administrative costs of grant programs: “An amount that equals not more than 5 percent of the funds allocated for a grant program pursuant to this division may be used to pay the administrative costs of that program.”

## **Effect on Jobs**

The proposed regulation will not result in a significant or permanent change in the number of jobs within the state. The additional local costs of applying for WSIP funds and the State costs of evaluating projects could be associated with a minor, temporary increase in professional employment. Sectors temporarily affected would be consulting assistance from engineering, planning, and economics professionals (North American Industry Classification System [NAICS] sector 54, Professional, Scientific, and Technical Services) and local water utilities (NAICS sector 22131, Water Supply and Irrigation Systems).

## **Effect on Housing**

The proposed regulation would not affect the cost or availability of housing in the State. Potentially some local cost to comply with the regulation could be recovered through property-related taxes,

assessments, or fees, but the cost recovery mechanisms would be localized and small relative to existing housing costs.

### **No Alternative is Less Burdensome and Equally Effective**

Based on this cost and impact analysis, no alternative to the proposed regulation is less burdensome and equally effective. The more prescriptive alternative imposes additional costs on applicants and could require them to use quantification methods that are not well-suited to their projects. The less prescriptive alternative would potentially reduce costs to applicants but could increase the application review costs and would likely result in inconsistent information being presented for the Commission's decision.

### **The Proposed Regulation Provides a Performance Standard for Quantification of Benefits**

The proposed regulation provides potential applicants flexibility in selecting and implementing the most appropriate quantification methods for their projects. More than one method for quantifying benefits is potentially available for each of the five public benefit categories, and the most appropriate method depends on the details of the proposed project – its features, location, and operations and the availability of appropriate data and studies that would be needed to apply different methods. However, any method used must meet certain requirements regarding how the analysis is structured, justified, and documented. Article 3 of the proposed regulation includes the requirements that must be met.

### **Other Potential Economic Impacts**

No creation or elimination of businesses within the state would occur as a result of this proposed regulation. The additional local costs of applying for WSIP funds and the State costs of evaluating projects could be associated with a minor, temporary increase in sales and income to the Professional, Scientific, and Technical Services sector (NAICS sector 54). The geographic extent of the temporary increase is unknown due to the voluntary nature of applications for funding. However, requirements that projects provide measurable improvement to the Delta ecosystem or to tributaries to the Delta indicate that any temporary increases are likely to occur in the counties within the Central Valley watersheds.

The proposed regulation implements the direction of the legislature and voters as expressed in Chapter 8 of Proposition 1. The many benefits associated with successful implementation of the WSIP will provide long-term advantages to businesses and investments in the State. An effective regulation will enable the Commission to select a set of projects that provide the greatest net benefit and return on investment for the State. The following outcomes are expected from the proposed regulation relative to the baseline, least prescriptive regulation:

- The proposed regulation could improve the prospects for investment in the State, by expanding water storage, associated public benefits, and improvement to operation of the State water system.
- The proposed regulation would not create any competitive disadvantage to businesses within the State.

- Incentives for innovation in business products, materials, or processes would not be affected.

The proposed regulation will not affect any federal funding for the State. The Act is not explicit about federal cost-sharing for projects funded by the WSIP. The proposed regulation clarifies that federal and other cost-sharing could occur. 6004(a)(7)(ii) states “Public benefit cost shares for the five public benefit categories may be allocated to the State, the United States, local governments, or private interests.” If anything, the regulation could increase federal funding for the state by providing the prospect of state funds.

### **Significant Adverse Economic Impact Directly Affecting Business**

There are no significant adverse impacts directly affecting businesses. Direct costs related to the proposed regulation fall on state agencies to conduct the proposal solicitation and review process and on local agencies that choose to apply for state funding through the WISP.

### **Duplication or Conflicts with Federal Regulations**

The proposed regulation implements a new state investment program that does not have a federal counterpart and does not impact, duplicate, or conflict with Federal regulations or statutes. The Commission has reviewed federal regulations and standards specifically regarding quantification of benefits for water storage projects and has striven to develop methods consistent with those (see Water Resources Council, 1983, incorporated by reference into the Code of Federal Regulations, Title 43, Subtitle B, Chapter 1, §404.4). Differences between the proposed regulation and the federal regulations occur where required by provisions the Act or other state law, or where required to evaluate benefits from the State’s perspective rather than the federal perspective.

### **References**

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