

Reliable Water Financing Policy Principles

May 23, 2012 (March 21, 2013 Update)

The following policy principles reflect the views of the members of the California Urban Water Agencies and California Municipal Utilities Association, which together represent 55 municipal water agencies serving over 25 million people, or two-thirds the population of California. The policy principles are based on two Public Investment White Papers, developed by CUWA in 2011 and 2012 with the aim of providing a technical basis to inform dialogue regarding any new approaches for public financing of water-related projects or programs and to promote a “beneficiary pays” system (see www.CUWA.org for more details).

The beneficiary pays principle offers the best basis for establishing reliable funding for essential water-related investments. Many precedents exist that demonstrate the success of financing water infrastructure by direct beneficiaries, and ample potential exists to apply this method to more complex multi-beneficiary projects. CUWA and CMUA define the beneficiary pays principle as requiring those receiving a benefit from a given project or program to pay a proportional share of the cost.

A functional beneficiary pays system should:

- Identify all beneficiaries (including the public) and limit “free riders”
- Establish a clear nexus between charges and benefits received
- Provide specificity, such that charges are based on defined projects with defined costs
- Provide for a joint powers forum in which beneficiaries collaborate on the integrated design of given water projects.
- Be transparent in cost allocation and investment decisions
- Dedicate funds strictly to water-related projects and programs, with no redirection of funds to other purposes
- Reasonably assure that benefits will be proportional to charges assessed
- Allow for special situations, e.g., disadvantaged communities, in which a beneficiary might not pay in proportion to benefits received

A beneficiary pays system should be comprehensively defined to include other proposed concepts such as “stressor pays” and “polluter pays.” Entities that are purported stressors or polluters derive a benefit from continuing their activity, and any current or proposed payments should be directed to fund related projects or programs.

A beneficiary pays system should generally be applied prospectively to assess future benefits, and not seek to allocate responsibility for legacy issues and “who’s to blame” for past stresses and damage. Establishing a baseline to account for such stresses, or to credit voluntary restoration investments, is inherently arbitrary and subject to political influence.

Public Benefits are defined as goods and services that are available to the broad public and do not accrue to a specific entity. One example of a public benefit is habitat enhancement that goes beyond mitigation required by a water-resources-related project.

Funding the public benefits of a given project or program is best accomplished with public money, whether from bonds, the state's General Fund, or federal appropriations. CUWA and CMUA believe that general obligation bonds will continue to play an important long-term role in financing public benefits. Other proposals, such as a public goods charge on water use, unfairly single out water users to finance benefits that accrue to the broader public.

A public goods charge on water, collected from water users by the state for re-distribution at the local level, is not an appropriate funding mechanism for public benefits. A public goods charge on water would be problematic because it lacks a nexus of benefits to beneficiaries, is not sufficiently inclusive of beneficiaries, undermines existing local fund-raising authority, and represents a de facto new tax.

Public benefits should be carefully and appropriately defined so as to avoid incurring costs that should be apportioned to other beneficiaries. By including all beneficiaries, a fair beneficiary pays system would generate more funds to finance critical projects and reduce the burden on increasingly limited public funding.

For ecosystem and habitat projects, mitigation should be strictly distinguished from enhancement. Project proponents should be obligated to fund all mitigation as defined under CEQA. The beneficiaries of enhancement activities may not be the same as the beneficiaries of mitigation activities and may include the general public.

An entity (or entities) could be authorized to implement a beneficiary pays system to finance water-related projects and programs. For a given project, the entity would be responsible for identifying beneficiaries, analyzing benefits, preparing a finance plan, allocating costs to each beneficiary or class of beneficiaries, and creating an enforceable mechanism to ensure cost recovery. This entity should prepare the cost allocation plan in a public transparent process, and, where appropriate, hold public hearings in which identified beneficiaries might present evidence on the record regarding the proposed cost allocations.

Any future water bond should fund only the clearly defined projects or portions of projects with public benefits and should focus on water resource needs. CUWA and CMUA strongly oppose a public goods charge, diversion fee, or any other user fee on water bills to pay for the public benefits in such a bond. Water bills are best reserved for generating revenue to pay for local projects.

For More Information

California Municipal Utilities Association – Established in 1932, the California Municipal Utilities Association (CMUA) brings publicly owned water, gas and electric utilities together to speak with one voice to the Legislature and regulatory agencies of the state. For more information, please contact Jennifer West, Director of Water at (916) 326-5800 or jwest@cmua.org, or visit <http://cmua.org/>.

California Urban Water Agencies – Established in 1990, the California Urban Water Agencies (CUWA) is a non-profit corporation of 10 major urban water agencies that are responsible for about two-thirds of California's drinking water supply. As the collective voice for the largest urban water purveyors in California, CUWA provides technical perspective to promote common understanding and consensus solutions among the urban water community. For more information, please contact Cindy Paulson, at (925) 210-2525 or cpaulson@brwncald.com, or visit www.cuwa.org.