



Restore the Delta's Responses to Metropolitan Water District's Financing and Cost Allocation White Paper August 14, 2017

After 11 years on the drawing board, MWD's third California WaterFix white paper (WP#3) still only has rough estimates, licks and promises, and wishes and prayers for allocating costs and financing California WaterFix (CWF). It would be pathetic, if it were not also dangerous for Delta residents, farms, and ecosystems—and for ratepayers all over California. In the spirit of magical thinking, Restore the Delta knocks on wood and offers these responses to WP#3. (Page references are to the White Paper.)

1) San Diego County Water Authority has criticized MWD's indecision whether MWD member agencies should be required to participate in CWF or not, whether they participate or not, and/or whether they would be required to buy a minimum amount of WaterFix water, or pay a set fee. The third MWD working paper does not address this matter at all, except to assume that 6.2 million "occupied resident households" in its service area would pay increased water rates for the project. Since MWD expects CWF water sales to be attractive, this is an important issue given cost allocation issues (see below).

2) A bait and switch is in the works about CWF ownership and control (p. 9): MWD envisions that if DWR's validation suit to determine it can issue WaterFix revenue bonds is held up too long, or actually fails (that is, DWR is not allowed to issue CWF revenue bonds as hoped), MWD would lead creation of a "Finance JPA" (Joint Powers Authority) that will take over financing of the project from DWR. It would mean that unspecified water contractors would take over financing and control of construction and potentially operations of CWF from DWR.

3) WP#3 fails to address a crucial question about the relationship of participation to financing of CWF: what minimum thresholds must be met for the project to go ahead. "Thresholds" here means how many and what kind of water agencies have to be involved for the project to work. Another meaning of threshold is what are the minimum tax base and customer base(s) necessary to support the project and "guarantee" payback of the bonds that finance it?

4) Risk of CVP contractor default is mentioned (Summary, p. 3), but not by name or dominant water use type (i.e. irrigation or M&I). Likely it's Westlands Water District (WWD) that MWD would be concerned about. It may be possible that rather than exposing itself to risk of default, WWD would simply decline to opt in to WaterFix participation through the U.S. Bureau of Reclamation.



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5) MWD excludes the vast majority of costs associated with ecosystem restoration and mitigating or eliminating various “stressors” in the Delta as was done under the Bay Delta Conservation Plan (BDCP) up until early 2015. All non-tunnels ecosystem/habitat conservation plan/stressor cost estimates of BDCP came to about \$8.4 billion in 2014. These actions now go begging for funds under a separate program, California EcoRestore, and will be paid for by state taxpayers.

6) MWD assumes the capital costs of CWF would be shared between the SWP (55%, or about \$9.2 billion) and CVP contractors (about \$7.5 billion, Summary, p. 2; p. 10 and 13). Will south-of-Delta CVP contractors be able to shoulder \$7.5 billion in capital costs when Congress is not providing up-front financing via the Bureau? How will CVP contractors afford CWF supplies and pay their “fair share” of its mortgage costs? If CVP contractors stay away in droves (especially Westlands) then SWP contractors would have to shoulder perhaps as much as 100% of CWF costs, not the 55 percent MWD so cheerfully assumes in WP#3.

7) CVP contractors would probably be asked to sign contracts where they may have a fixed mortgage cost in addition to variable water consumption-based costs. The mortgage cost might have to be dealt with via increased property tax rates which might be vehemently opposed by CVP water contractor customers. WP#3 fails to acknowledge this as a political and fiscal uncertainty for many CVP contractors. If CVP contractors balk, SWP contractors pay a lot more.

8) MWD avoids having customers' use of water affect any of their household cost methodology by omitting both cost and use of water factors in what residents pay. Yet we know from every drought in modern California history that southern California residents respond to both water rate hikes and reduced supplies during droughts by using less water. Only by ignoring that could MWD obtain such a lower monthly household cost for CWF. But it is highly unrealistic (see page 14 of WP#3).

9) This problem is exacerbated in Table 6, where they compare CWF to other water projects by a population base (a fallacious way to compare the economics of infrastructure projects). Table 6 is a **political analysis, not an economic analysis, of how large a population base over which MWD could spread the cost of the project.**



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10) MWD fails in Table 7 to incorporate the relative reliability of each project in delivering its yield. The climate and environmental risks to CWF reliability are well known: Big gulps may get fewer and farther between, while water carried over for droughts may not be enough to outlast the dry years. Between 2005 and 2014, MWD's average reliable supply of Table A supplies from the SWP was just 46 percent (about 880,000 acre-feet). By contrast, yield from water recycling is far higher since it is much less susceptible to climate and hydrologic changes.