



**Water Storage Investment Program: Options for Available Funding (Action Item)**

**Introduction**

In October 2020 Temperance Flat Reservoir Authority (TFRA) informed the Commission that timing of Water Storage Investment Program (WSIP) statutory program requirements and the status of the Temperance Flat Reservoir project no longer match and the WSIP funding source may no longer be usable by the project. In late October, TFRA’s Board submitted a resolution to formally withdraw the project from the WSIP. TFRA’s Board encouraged the Commission to utilize the available funding to address Central Valley water storage needs.

At the November 2020 Commission meeting, staff presented options to use the WSIP funding made available by TFRA’s communication, and any other funds that may become available in the future. The options included various ways to apply funding to projects currently in the WSIP and a path for considering new projects. One way to apply funding to current WSIP projects could involve adjusting Maximum Conditional Eligibility Determinations (MCEs) for projects that received less than their original request or less than their eligible amount. Another option could be to adjust MCEs for all projects based on cost inflation. A screening process could consider new projects that allow the Commission to receive information sufficient to meet the January 1, 2022 deadline, while leaving the substantive evaluation of the project to a later date. The Commission could decide to perform any needed rulemaking to open a second solicitation once it is clear other projects meet the time sensitive statutory requirements.

This agenda item continues the topic of using available funding by presenting a staff recommendation and positioning the Commission make decisions.

**Summary of Issues**

Three options exist to use TFRA’s MCE amount to adjust the MCEs for existing WSIP projects.

1. Increase the MCEs for the three projects that received less than their original request (“rank 3” projects). These projects are Sites Project, Kern Fan Groundwater Storage Project (Kern Fan), and Willow Springs Water Bank Conjunctive Use Project (Willow Springs).
2. Increase the MCEs for the two projects that received less than the amount for which they were eligible. These projects are Sites Project and Harvest Water Program. These amounts are beyond what the projects requested during the initial regulatory process.

3. Adjust the MCEDs for all seven remaining projects based on inflation that has occurred since 2015 (applicants were required by regulation to use 2015 dollars in their applications).

Options one and three, above, could utilize most, if not all, of TFRA's MCED amount.

Sites Reservoir is in the process of changing the proposed reservoir size. It is not clear what effect this will have on the project's potential public benefits, which may decrease. The Commission could increase the Sites Project's MCED by approximately \$100 million, which would meet the applicant's original request. However, if the project's public benefits decrease due to the change in reservoir size, the Commission would be faced with a decision to later reduce the MCED after increasing it. Increasing the Sites Project's MCED now appears to be premature.

Additionally, the Commission needs to consider timing implications in its decision-making. WSIP projects are statutorily obligated to meet certain required conditions by January 1, 2022. This date affects both existing and any new projects. If the Commission implements a screening process to potentially allow a new project to compete and be evaluated, the deadline presents a narrow time window to establish program eligibility. Existing projects need funding certainty: the amount of cost share they eventually receive from WSIP can impact how the project plans to meet its statutorily required conditions. Timing may be particularly sensitive for smaller, shorter timeline Rank 3 groundwater projects. These projects have smaller budgets with their respective Rank 3 funding gap being about 21% of each project's request. Making a decision to adjust the MCEDs of these two projects to the full amount of their MCEDs in the near term would help ensure these projects are positioned to realize their public benefits in a timely manner. Waiting to make this decision could impact the amount of benefit or slow project progress.

### **Commission Decision**

The Commission may decide among multiple options or may combine options to utilize available funding. As described above, the Commission should consider balancing the current applicants' needs for additional funding against a potential pool of second round applicants. The table below shows the total funding amounts for each of the options described above. Because the Commission decision can be a combination of these options, the funding range for any option is from \$0 to the Funding Involved total shown in Table 1.

Table 1. Summary of options to apply available funds to existing projects:

Option	Projects Involved	Funding Involved	Notes
Increase Rank 3 MCED to Applicant's Request	Sites Project	\$100,242,314	Consistent with March 2019 Resolution. Sites Project is in process of resizing reservoir.
	Kern Fan	\$18,122,685	
	Willow Springs	\$27,884,001	
	<b>Option Total</b>	<b>\$146,249,000</b>	
Additional Eligibility	Harvest Water Program	\$30,000	These values are beyond what the applicant requested.
	Sites Project	\$91,660,000	
	<b>Option Total</b>	<b>\$91,690,000</b>	
Inflation Adjustment	All seven remaining projects	<b>Up to \$171,330,000</b>	Inflation since 2015 is approximately 10% <sup>1</sup> . An inflation adjustment of about 7% would use all available funding
Consider New Projects	None of the seven remaining projects	<b>Up to \$171,330,000</b>	Screening process alone would not result in an MCED. Estimate approximately 3 years to get to Commission MCED on new projects, if any exist.

Staff has provided a recommendation below as a starting point for Commission decision-making. The Commission can adopt the staff recommendation; modify any component; and/or defer funding decisions until future Commission meetings.

**Staff Recommendation**

The staff recommendation incorporates three of the options listed in Table 1. Staff's recommended approach balances funding certainty for current applicants and incentivizes a pool of new projects. Staff recommends the Commission adjust the MCED to two of the rank 3 projects: Kern Fan and Willow Springs. Staff does not recommend adjusting the MCED for the remaining rank 3 project, Sites Project, until there is more certainty surrounding the impacts of the change in the proposed reservoir size to the public benefits the project will provide to the State. Staff also recommends making a minor adjustment to the MCEDs for all existing projects to account for inflation at approximately 2.5 percent. Staff recommends retaining the

<sup>1</sup> The Technical Reference provided the Bureau of Reclamation's Construction Cost Trends, or CCT (Source: <https://www.usbr.gov/tsc/techreferences/mands/cct.html>) for indexing of costs. The composite CCT index for January 2015 was 383, increasing to 419 in January 2019 and to 425 in January of 2020. These represent a 9.40% increase and a 10.97% increase, respectively.

remaining available funding (\$64 million) for either new projects that could come to the Commission through the screening process and subsequent second solicitation, an additional inflationary increase, or for the Sites Project, if the applicant can verify its public benefits, given the change in the size of the reservoir.

Table 2. Fund Summary of Staff Recommendation

<b>Option</b>	<b>Project impact</b>	<b>Funds</b>
Increase Rank 3 MCED to Applicant's Request	Kern Fan	\$18,122,685
	Willow Springs	\$27,884,001
	<b>Rank 3 Adjustment Total</b>	<b>\$46,006,686</b>
2.5% Inflation Adjustment	Sites Project	\$20,409,442
	Chino Basin Conjunctive Use Program	\$5,172,500
	Harvest Water Program	\$7,012,500
	Kern Fan	\$2,141,500
	Los Vaqueros Reservoir Expansion Project	\$11,475,000
	Pacheco Reservoir Expansion Project	\$12,113,750
	Willow Springs	\$3,082,250
	<b>Inflation Adjustment Total</b>	<b>\$61,406,942</b>
Consider New Projects	<b>New project total</b>	<b>\$63,916,372</b>
	<b>Total Funds</b>	<b>\$171,330,000</b>

The amounts in the table are cumulative. If a project is listed more than once in Table 2, the project would receive an increase in its MCED equal to the sum of its appearances.

If the Commission wishes to begin a screening process, staff recommends the Commission open the screening process in January 2021. If the screening process produces potential new projects, the Commission will need to make its feasibility determination prior to the January 1, 2022 statutory deadline. This creates a pool of projects eligible to apply for WSIP funding. The Commission would make a future decision to proceed with a second solicitation. A second solicitation will require a rulemaking process, which can take up to one year, so the earliest a solicitation could start would be early 2023.

**Background**

Through the WSIP, the California Water Commission will invest nearly \$2.6 billion in the public benefits of water storage projects, consistent with the requirements of Proposition 1 (the Water Quality, Supply, and Infrastructure Improvement Act of 2014), Chapter 8. In July 2018, the Commission made Maximum Conditional Eligibility Determinations, decisions that set the amount of Proposition 1 funding available to a given project, for eight projects that will create more than four million acre-feet of storage capacity. Since then, applicants have been working to complete the Proposition 1 requirements, which include obtaining permits and

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environmental documents, contracts for the administration of public benefits, and contracts for non-Proposition 1 funding before returning to the Commission for a final award hearing. As noted above, TFRA notified the Commission that it did not intend to compete for WSIP funding, so there are now seven projects.

This agenda item implements Goal Four of the Commission's Strategic Plan, which calls on the Commission to carry out its statutory responsibilities for the Proposition 1 Water Storage Investment Program.

**Meeting Overview**

At the meeting, Commission staff will brief the Commission on the options for utilizing available funding and will request Commission decisions on whether to adjust MCEDs to existing projects and whether to implement a screening process for potential new projects.

This is an action item.

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