



CALIFORNIA STATE TREASURER BILL LOCKYER

NEWS RELEASE

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California Treasurer's Office Releases Report on BDCP Affordability and Financing
Urban and Agricultural Users Have Capacity to Pay Their Share of Costs

The California State Treasurer's Office has released *The Bay Delta Conveyance Facility: Affordability and Financing Considerations*, a study of affordability for the water facility construction proposed in the *Public Review Draft Bay Delta Conservation Plan (BDCP)*. This independent study, requested by the California Resources Agency, was commissioned by the California Debt and Investment Advisory Commission (CDIAC), chaired by State Treasurer Bill Lockyer. The study finds that the cost of the Delta conveyance facility is within the range of urban and agricultural users' capacity to pay.

The BDCP modernizes California's existing water supply system – the State Water Project (SWP) and Central Valley Project (CVP) located in the Sacramento-San Joaquin Delta – and protects water users across the state from water supply disruption due to regulatory restrictions and seismic risks. The preferred alternative identified in draft environmental documents calls for the construction of three new intakes in the northern Delta on the Sacramento River and twin tunnels of a combined 9,000 cubic-foot-per-second capacity to protect and transport supply to the existing aqueduct systems in the southern Delta. The participating public water agencies would fund the water system improvements.

The Treasurer's report is one more step in the ongoing BDCP development. It estimates the annual debt service cost for SWP and CVP water contractors and identifies steps that will need to be undertaken in order to successfully finance the project over a 50-year period. The report also identifies common risks inherent in financing large infrastructure projects.

The Treasurer's report illustrates that the cost of the Delta conveyance facility is within the range of urban and agricultural users' capacity to pay. The report provides illustrative cost ranges for Metropolitan Water District, Santa Clara Valley Water District, Westlands Water District, and Kern Water District, which have been major funders of the BDCP planning effort. The independent analysis was funded solely by CDIAC.

The Treasurers report examines peak costs over the lifetime of debt financing. The report estimates that the peak annual debt service costs, defined as the average annual costs for the highest ten years, would be \$1.58 billion per year (base case), \$1.08 billion per year (best case), and \$2.50 billion per year (worst case), all in year-of-expenditure dollars. These debts would be financed via revenue bonds and repaid by revenues from the SWP and CVP contractors and their ratepayers, not California's taxpayers.

The Treasurer's report identifies certain commitments that would need to be undertaken by SWP and CVP contractors to enable bonds to be sold for the project. More than 56 percent of the estimated financial responsibility of SWP contractors' share of the bonds would be derived from contractors that have two AA/Aa or higher category ratings by Moody's Investors Service, Standard & Poor's and Fitch Ratings. California Department of Water Resources (DWR) and SWP contractors currently use "take or pay" contracts to finance the SWP. Among other issues discussed, the report indicates that BDCP bond contracts for CVP contractors would need to adopt this "take or pay" structure to finance the Delta conveyance. This requires annual fixed payments even when water deliveries fluctuate year to year due to changes in hydrologic conditions. This approach, along with other requirements, has resulted in very strong credit ratings of AAA/Aa1 on DWR's bonds and is expected to strengthen the credit ratings for BDCP-related bonds.

The report identifies potential risks to bond financing, such as construction cost overruns and delays, regulatory uncertainty, and unforeseen changes due to climate change. The report cites studies on so-called "megaprojects," and their potential for cost overruns. According to the report, bridge and tunnel projects experience cost overruns of 34 percent on average. Currently the BDCP construction budget has a contingency of 36 percent to account for this uncertainty.

For additional information, or to read a copy of the report go to: <http://www.treasurer.ca.gov>
<http://www.baydeltaconservationplan.com>

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