PUBLIC SUMMARY

WHY WE CANNOT AFFORD THE PROPOSED PERIPHERAL CANAL/TUNNEL:

THE SANTA BARBARA COUNTY EXPERIENCE

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Report by:
California Water Impact Network
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http://www.c-win.org

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THE REPORT:
Project Manager:
Tom Stokely

Report Supervision:
Carolee Krieger
(805) 969-0824
Email: caroleekrieger7@gmail.com

Editing Assistance:
Joan Wells
Tim Stroshane

"Those who cannot learn from history are doomed to repeat it."
—George Santayana

C-WIN has prepared a Report about the costs of State water and the impact of the newly proposed Bay-Delta Peripheral Canal on water ratepayers focusing on the experience of Santa Barbara County and four of its largest urban water agencies

PROPOSED NEW PERIPHERAL CANAL TO COST CALIFORNIANS BILLIONS!

The recent proposal of Governor Jerry Brown and Interior Secretary Ken Salazar to build a $20.6 to $68.98 billion[1] Peripheral Canal/Tunnel project to divert water underneath the Sacramento Bay Delta into the State Water Project (SWP) system is now public. Supported by large corporate farms in the western San Joaquin Valley and urban developers in Southern California, who would benefit the most, the Canal/Tunnel is scheduled to go forward without a vote of the ratepayers. Financing the project has not been made clear, but the State could issue revenue bonds, which do not require a vote of the people. Governor Brown doesn't intend to let any ratepayers in California vote directly on the project because he believes they will reject the Canal, again, as they did in 1982.

C-WIN's Report about the costs of the Peripheral Canal and State water focuses on the experience of Santa Barbara County and four of its largest urban water agencies.

WHAT IS THE PROPOSED PERIPHERAL CANAL/TUNNEL?

The project consists of the construction of two massive tunnels, 33 feet in diameter, buried 150 feet deep and spanning forty miles under and around California's Sacramento-San Joaquin Delta. This "Peripheral Canal" will divert water from the Sacramento River around the San Francisco Bay Delta, delivering it to downstream water users. It is very likely that if the Peripheral Canal were built, many species of fish now endangered would go extinct, and existing commercial and recreational salmon fisheries would collapse, causing economic hardship for many.[2]

Despite rhetoric that the project's exporting such large quantities of water will lessen the impact on threatened and endangered fish populations, imbedded in the deal is obtaining a 50-year exemption from the Endangered Species Act. Comments

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[1] Cost range from: ECONorthwest. 2012. *Analysis of the Cost of a Bay-Delta Conveyance Structure: Rate Impacts to Santa Barbara County.* July. Accessible online at http://www.c-win.org/webfm_send/244

[2] See Fish Agency Red Flag Comments on BDCP Draft Effects Analysis at http://baydeltaconservationplan.com/Libraries/Dynamic_Document_Library/Effects_Analysis_-_Fish_Agency_Red_Flag_Comments_and_Responses_4-25-12.sflb.ashx

issued by the California Department of Fish and Game, National Marine Fisheries Service and the U.S. Fish and Wildlife Service maintain that numerous species of fish, and their associated fisheries, will be seriously and perhaps irreparably harmed by the project. In recognition of the damage from the project, the plan includes money for mitigation and habitat restoration to be directly financed by California taxpayers at large, subsidizing powerful agribusinesses and land developers for whom the project is intended.

THE COST OF THE PERIPHERAL CANAL/TUNNEL

Paying for a Peripheral Canal/Tunnel could substantially increase Santa Barbara's water costs through existing SWP water contracts. **ECONorthwest's** economic report estimates a cost range for **Santa Barbara's share of paying for the Peripheral Canal/Tunnel as being between $1.17 and $7.87 billion dollars. This is in addition to Santa Barbara's $1.76 billion costs for the Coastal Branch**. Different Canal/Tunnel cost scenarios that are known expect that maximum rate increases, in today's dollars, for Santa Barbara would range between $287 per year (about $24 more per month than the current average ratepayer bill) to $1,920 per year (about $160 more per month) by 2019.

It should be remembered that voters approved the Coastal Branch in 1991 and were told the project would cost $270 million and be 97% reliable. By 1998, cost overruns had made the construction cost alone $595 million and delivery to the South Coast has been at 36% of contracted amounts. **By 2035 and <u>without</u> the Peripheral Canal, total cost of State water for Santa Barbara, including construction, maintenance, operations and financing will be $1.76 billion.**

WHY ARE SANTA BARBARA RATE PAYERS EXPECTED TO PAY?

Agencies and ratepayers currently benefiting from importing State water are automatically required by their contracts to pay their share of costs including those costs of any new water generated for the State Water Project. Santa Barbara County and its water agencies, like many other Counties, are connected and have contracts with the State Water Project. If the Canal/Tunnel is built, their customers will be required to pay for its construction and maintenance for years to come.

THE REAL COST OF STATE WATER

The Peripheral Canal/Tunnel cannot be considered in isolation. C-WIN has found that South Coast water agencies have been hard hit by existing State water costs. The four Santa Barbara region water agencies that C-WIN examined in detail have been particularly hard hit by the costs of the *existing* State Water Project because they are at the end of the Coastal Branch Aqueduct where costs are greatest and needs are smallest. The bonded indebtedness the County incurred in 1997 for connecting to the SWP continues even when SWP water is not delivered or taken.

Retail water rate hikes to cope with rising SWP costs have significantly reduced demand so that very little, if any, SWP water is needed, except during drought when it is not readily available. For example, Montecito Water District will spend 39% of its entire budget this year on SWP costs that must be paid—nearly $5 million—but is not ordering any SWP water because it doesn't need it. C-WIN's report finds that other Santa Barbara County water agencies are also suffering fiscally from the high cost of SWP water.

One factor masking the financial problem is that the Central Coast Water Authority (CCWA), the joint powers agency responsible for managing the County's State water, has grossly underestimated the unit cost of SWP water to the four South Coast water agencies. It divides SWP costs by full contract amounts instead of actual water deliveries that are much lower. This bookkeeping strategy needs to be publicly recognized and changed.

The high cost for low demand strains agencies' budgets and compromises their ability to maintain adequate reserves, perform system upgrades, and needed repairs. As the price of water to the consumer escalates, demand decreases further, thus impacting finances. As a result, maintenance and upgrades are backlogged or must be paid out of dwindling reserve funds. In some cases retail water rates do not cover the cost of State water delivery. There is a fiscal crisis on the horizon.

RELIABILITY OF WATER

During droughts, when Santa Barbara needs SWP water the most, it isn't available. During the current drought, deliveries may go as low as 5% of the contract amount. The reliability of SWP water (the percentage of full contract amounts delivered each year) for Santa Barbara County has been much less than the 97% originally promised to voters in 1991. For the period 1998-2011, the four South Coast water agencies actual water deliveries averaged just 36% of full contract amounts.

Historically in times of drought, urban water users had been given preference over agricultural deliveries. But in 1995 that preference was lost as a result of a back room deal called the Monterey Agreement. C-WIN is litigating this contract change in a separate action.

OPTIONS AND RECOMMENDATIONS

Agencies immediately should take a leadership role in opposing the construction of the Peripheral Canal/Tunnel. The economic and environmental costs of building it are too extreme. Now is the time to protect Santa Barbara's ratepayers.

All four South Coast water agencies can minimize costs by using other cheaper sources of water. Santa Barbara County water agencies and ratepayers cannot remove themselves from the bonded indebtedness of their contracts with the SWP, but they have other options available. to them, including Lake Cachuma, local streams and reservoirs, groundwater, recycled water and desalination. The City of Santa Barbara has the capability to use a mothballed reverse osmosis desalination facility to supply water in times of drought for themselves and other agencies. C-WIN found the cost of water through desalination would be lower than water from the SWP.

The true cost of State water should be recognized up front and measures to cover water delivery costs, while keeping rates as low as possible, should be implemented in long range plans. This is the prudent responsibility of water agencies.