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Bay Delta Conservation Plan's 'twin tunnels' add USD 16.6bn of expenses to Southern California water utilities – New Coverage
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Costs for **Central Coast Water Authority** (CCWA) members will increase USD 160-USD 180 per acre foot of water (about 326,000 gallons), if the Bay Delta Conservation Plan is implemented, said Ray Stokes, assistant executive director of the CCWA.

The Bay Delta Conservation Plan would involve the construction of two "twin" tunnels, each approximately 35 miles long, from the Sacramento River to water pumps in the Bay Delta at a cost of USD 16.6bn, to move the water into aqueducts feeding the State Water Project (SWP) and the Central Valley Project. A second component would include conservation and reclamation efforts of USD 7.9bn, according to a 29 May press release from the California Natural Resources Agency and Governor Jerry Brown.

The two projects will cost USD 24.5bn in their 50-year implementation period, according to the 29 May press release. Water users will pay for 68%, covering design, construction, operation, mitigation, and adaptive management of a new water conveyance system. How that would be divided between urban and agricultural customers has not been determined.

The remaining USD 7.9bn of the project would be paid for in part by the issuance of USD 3.4bn of water bonds by the **State of California Department of Water Resources** (DWR), said a spokesperson for the department. The remainder would be paid through other sources of state and federal funding.

Floating numbers

"The numbers that are floating out there are just so variable right now. If the agricultural customers don't pay for this, does that mean we have to pay for those costs? There are so many unknowns," said Tom Mosby, general manager of the **Montecito Water District**. "We have one group of independent analysts saying [the projects' total cost] will be 2x to 3x what the Department of Water Resources is saying."

This group of independent analysts is the California Water Impact Network (CWIN), which believes that costs could climb as high as USD 61.5bn after bond issuance costs are included, said CWIN Executive Director Carolee Krieger.

Municipal water providers in **Santa Barbara County**, including the **City of Santa Barbara - Water Resources**, **Goleta Water District**, **Carpinteria Valley Water District** and Montecito Water District, are especially sensitive to an increase in costs because of their relatively large debt burdens from earlier water projects that have not lived up to expectations, Krieger said.

Fool me once, shame on you

Past water projects in Santa Barbara County have left residents holding the bag and filling a much larger than anticipated gap, Krieger said. An anticipated USD 270m project, to build a 144-mile pipeline from **Kettleman City** in **Kern County**, passing through **Santa Barbara** to Lake Cachuma, has a final price tag of USD 1.76bn after debt service costs are included.

The costs for the Bay Delta Conservation Plan will not be that burdensome for the county's water systems, Stokes said. The bonds for the earlier project will be paid off in 2021, and the bonds for the twin tunnels project would likely not kick in until after that.

"It's not going to be a significant hit for our participants that participated in [that] bond issue," Stokes said.

Unclear costs and methods of financing

The lack of consensus is worrisome, Mosby said. Especially for small water utilities like Montecito, which would only get about 1% of the water from the SWP, so it has little voice in the matter. Its costs could go up USD 540,000 a year, according to calculations by *Debtwire Municipals* based on CCWA's projections. The water district had net revenue of USD 2.2m, according to the FY12 financials, the most recent data available.

Montecito's take of the State Water Project is relatively small, Mosby said. Other users, such as the **Kern County Water Agency** (KCWA), which will use about 25% of the water, and the **Metropolitan Water District of Southern California** (MWD), using about 50% of the water, will have to carry relatively more of the project costs.

"What's the improvement in water supply that's realized by this project, how much they're going to be asked to pay for it, and how long they can rely on that water" are the three key questions for Kern County water users of SWP, which are about 90% agricultural, said KCWA General Manager Jim Beck.

Early estimates for the county show costs between USD 150 and USD 200 per acre foot, Beck said. The KCWA is allocated 1.15m acre feet of water from the SWP, according to the FY12 financials, the most recent data available. It received about 980,000 acre feet in FY12, when it spent USD 120.6m on water. This SWP expansion would increase costs by USD 196m, about 163%, according to calculations by *Debtwire Municipals*.

The payment would likely be spread out over time, Beck said.

Bond debt may finance individual water agency portions

"The expectation is that you will have bonds issued by a consortium of water agencies," Beck said. "I think you'll see a series of large bonds issued."

Agencies will be looking at what strategy will get the best rating, from multiple issues by a central project authority to a consolidated issued coordinated by a central authority, Beck said.

The project does not require municipalities to issue debt to fund their portion, said a second DWR spokesperson.

The debt issuance could easily be run through the DWR, said MWD Chief Financial Officer Gary Breaux. MWD will be responsible for about USD 4bn, one-quarter of the water user portion of the project.

"In general we've been very supportive of the process and very involved in it," Breaux said. "When we compare what the cost of state water project water will be to us after the improvements are made it still compares favorably to recycling."

A USD 3.3m tranche of Series 2006 A water revenue certificates of participation issued by KCWA, which mature in 2036, last traded 6 May in small lots trades at 105 yielding 2.8%, according to Electronic Municipal Market Access. The bonds were last rated A by Standard and Poor's at issuance and Aa3 by Moody's in October 2012. The bond trustee is **Bank of New York Trust Company**. Bondholders could not be immediately identified. The KCWA has USD 135.1m debt outstanding, according to the FY12 financials.

by Maryellen Tighe