CALIFORNIA WATER PLAN
UPDATE 2013
FINANCE CAUCUS
MAY 19, 2011

WORKBOOK

NAME:
## Meeting Goals:
1. Finalize group charter
2. Refine Guiding Principles
3. Develop framework and jointly define key terms.

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<tr>
<th>#</th>
<th>TIME</th>
<th>ITEM</th>
<th>PRESENTERS</th>
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<tr>
<td>1</td>
<td>1:15 PM</td>
<td>WELCOME, AND INTRODUCTIONS</td>
<td>Paul Massera, Department of Water Resources (DWR)</td>
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<td></td>
<td></td>
<td>Ground Rules And Logistics</td>
<td>Lisa Beutler, Executive Facilitator, MWH</td>
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<td></td>
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<td>• Process for Group Membership</td>
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<td>2</td>
<td>1:30</td>
<td>OVERVIEW OF CALIFORNIA WATER PLAN UPDATE 2013</td>
<td>Paul Massera</td>
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<td>3</td>
<td>1:50</td>
<td>FRAMEWORK REFINEMENT</td>
<td>Paul Massera</td>
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<td>• Review and Discuss Annotated Outline</td>
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<td>GROUP MEMBER DISCUSSION</td>
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<td>4</td>
<td>2:45</td>
<td>GUIDING PRINCIPLES</td>
<td>Megan Fidell, DWR</td>
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<td>• Review Group Perspective Regarding Potential Plan Principles</td>
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<td>GROUP MEMBER DISCUSSION</td>
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<td>JOINT DEFINITION BUILDING</td>
<td>Paul Massera</td>
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<td>• Public Benefits</td>
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<td>• Stressor pays</td>
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<td>• Polluter pays</td>
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<td>GROUP MEMBER DISCUSSION</td>
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<td>Public Comment (please advise facilitator)</td>
<td>Public Participants</td>
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<td>7</td>
<td>4:45</td>
<td>Next Steps</td>
<td>Paul Massera</td>
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<td>8</td>
<td>5:00</td>
<td>ADJOURN</td>
<td>Paul Massera</td>
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If you need reasonable accommodations due to a disability, please contact Karl Fraguela 916-653-8053
Meeting Ground Rules

There will be many opportunities for meeting participants to engage group discussion. Participants are asked to subscribe to several key agreements to allow for productive outcomes.

USE COMMON CONVERSATIONAL COURTESY

Don't interrupt; use appropriate language, no third party discussions, etc.

ALL IDEAS AND POINTS OF VIEW HAVE VALUE

During our initial meetings you may hear something you do not agree with or you think is "silly" or "wrong." Please remember that the purpose of the forum is to share ideas. All ideas have value in this setting. The goal is to achieve understanding. Simply listen, you do not have to agree, defend or advocate.

HONOR TIME

We have an ambitious agenda, in order to meet our goals it will be important to follow the time guidelines given by the facilitator.

HUMOR IS WELCOME

BUT humor should never be at someone else's expense.

BE COMFORTABLE

Please feel help yourself to refreshments or take personal breaks. If you have other needs please let a facilitator know.

OTHER?

SPELLING DOESN’T COUNT

Research indicates that writing on a vertical surface (like blackboards or flipcharts) actually increases the number of spelling errors.

ELECTRONICS COURTESY

Most of the participants have demanding responsibilities outside of the meeting room. We ask that these responsibilities be left at the door. Your attention is needed for the full meeting. Please turn cell phones, or any other communication item with an on/off switch to “silent.” If you do not believe you will be able to participate fully, please discuss your situation with one of the facilitators.

USE THE MICROPHONE

We are in a large room with varying acoustics. Please use a microphone so that others can hear you.

AVOID EDITORIALS

It will be tempting to analyze the motives of others or offer editorial comments. Please talk about YOUR ideas and thoughts.
You will spend most of the session working in groups. As a group you will be asked to analyze or develop ideas, keep track of the issues you develop then make a report to the larger group. Each group will need:

**Facilitators/ Leaders:** Facilitators will be available to work with most of the groups. In the event a facilitator is not available, one or more members should ensure that the group stays with the assigned task and that all participants have an opportunity to share ideas. This person and all group members should ensure use of the ground rules.

**Recorder:** Ideas will be shared on flipcharts. Information from the charts will be used to make reports AND used later to transcribe the proceedings of the meeting. Ask the facilitators if you need help with this. For each set of questions please:

A. Put Table # and Page # on each sheet
B. Note the issue being addressed
C. Prepare Summary Sheet for the reporter

**Reporter:** Someone will report on behalf of the full group.

- Will summarize table conclusions from Flip Charts
- Should not be a Board member or staff
- Must speak into microphone
- Limit presentation to time allotted by Large Group Facilitator

**Time Keeper:** All activities will involve specific blocks of time. In order to complete tasks, one group member needs to keep track of time.

**Personal Worksheets:** In addition to the group notes, you may wish to make more in-depth individual or organizational comments. Extra workbooks will be available in each group to do this. These may also be turned in at the end of the session. If you are willing to include your name and contact information, it will help the person preparing the notes in the event they have questions.
Group Charge:

The California Water Plan (CWP) Finance Caucus is a statewide topic-based workgroup designed to support development of CWP Update 2013 through in-depth discussions and deliberations of core finance topics and issues. The Finance Caucus will expand information associated with statewide and regional integrated water planning and coordinate finance planning for water resources management and infrastructure in California. Building on CWP Update 2009, the Finance Caucus will provide informational updates to technical project teams, Public and Tribal Advisory Committees, and the State Agency Steering Committee.

Activities:

Content for the Finance planning portion of CWP Update 2013 is being provided by DWR technical work teams, Public and Tribal Advisory Committees, the State Agency Steering Committee, Regional Forum participants, IRWM groups, and Finance Caucus members. The table below outlines the Caucus team focus. The Caucus team reviews and provides input to the technical content, evaluates, helps draft narrative and makes policy recommendations. Project deliverables for CWP Update 2013 will be based on the best existing and available data, information, and analyses from state, regional and local efforts and planning activities.

Scope:

A finance plan for investing in water management innovation and infrastructure in support of integrated water management and sustainability. A finance plan will be published in the 2013 Water Plan that will contain recommendations regarding funding priorities, existing and new financial strategies and revenue sources, as well as governance, accountability and contingency measures.

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<th>Deliverables</th>
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| • Estimate the magnitude of statewide and regional anticipated investment requirements through the year 2050. | ♦ Help compile state, regional and local IWM plans and proposals  
♦ Advise and assist reporting of state IWM costs |
| • Integrate several similar initiatives and processes where practical and beneficial | ♦ Coordinate with various agencies, initiatives and processes |
| • Form funding criteria and (optimally) funding priorities to supporting Legislative and Executive decision-making | ♦ Develop, seek consensus and propose funding criteria to CWP Update team  
♦ Help develop and seek consensus on funding priorities |
| • Recommend strategies to improve governance and accountability of investments. | ♦ Inform and advise development of policy recommendations; including proposed revenue sources |
Agenda Item 3 - Discussion Draft

Annotated Outline

California Water Plan Update 2013
Integrated Water Management Finance Plan
May 19, 2011

NOT APPROVED BY DWR OR WATER PLAN STEERING COMMITTEE OR ADVISORY GROUPS
This document reflects a first attempt to capture early stakeholder and subject expert input. The propose is to provide a working document and to enable the development of the Finance Plan through the outreach process within an evolving report structure.

READERS NOTE: Terms or phrases that are bracketed by *asterisks* shall be defined in the report or glossary.

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**Appendix A:** Methods, Assumptions and Data for Estimating Costs through 2050

**Appendix B:** Compilation of Regional and Local Programs, Plans and Projects (used to develop recommendations)

**Appendix C:** Compilation of State Programs, Plans and Projects (used to develop recommendations)

**Appendix D:** Glossary
Agenda Item 3 - Creating the Finance Document

Working as a plenary: Outlining the Document Chapters

**Purpose:** More fully frame the Key Topics and Discussion Items for the Finance Document

**Question:**
What are the chapters, sections and sub topics of the Finance Document

**Ground rules for mind-mapping--**

1. This is a group brainstorm--no evaluation, no censorship, no agreement is required.
2. The person who names a topic says where it goes on the map. They also indicate if it is a chapter, sub-chapter or topic within in a section.
3. Opposing ideas are OK when backed up by examples.
4. Give concrete examples of what you are suggesting.
5. You may use the outline on pages 6 and 7 of this workbook to help you think about the document but are not bound by those titles or arrangement.
Agenda Item 4 – Guiding Principles

Discussion Draft
NOT APPROVED BY DWR OR WATER PLAN STEERING COMMITTEE OR ADVISORY GROUPS

This worksheet is intended to provide the Update 2013 Finance Caucus with a preliminary list of potential guiding principles to discuss, expand and refine. Some of the discussion items may be viewed as provocative. These statements are offered as a starting point of discussion rather than a statement of DWR policy or perspective.

Other principles may appear in conflict with one another. In those cases you may be asked to highlight when you believe the principles should apply or not apply.

Guiding Principles

In general, guiding principles describe the core values and philosophies that dictate how to achieve the vision, mission and goals. For the purposes of this Finance Plan, the guiding principles will describe how to make decisions regarding the development and implementation of the Plan. They are divided into three categories as follows: (1) Underlying Assumptions that overarch multiple dimensions of the Plan; (2) Guiding Principles for Raising Revenues; and (3) Guiding Principles for Allocating Funds.

Underlying Assumptions

Constitutional, Equal Interests - Environmental, economic and social interests shall equitably bear the burden of impacts and enjoyment of benefits with respect to future funding recommendations. One exception to this principle is the higher regard that may be granted to underserved households and areas of the State; possibly in the form of “lifeline” rates for new funding options, preferential treatment for awarding of state funding, etc. Underserved is defined as .

Collaboratively derived - Use a broad, stakeholder-based, long-view perspective for water management.

Full cost accounting - Determine values for economic, environmental, and social benefits, costs, and tradeoff to base investment decisions on sustainability indicators. Evaluate programs and projects recognizing economic growth, environmental quality, social equity, and sustainability as co-equal goals. When comparing alternatives, determine the value of potential

1 California Water Plan Update 2009; Strategic Plan
economic, environmental and social benefits; beneficiaries; costs; and tradeoffs. Include a plan that avoids, minimizes, and mitigates for adverse impacts. Decisions about how to pay should be explicitly stated in terms of the monetary outlays and the non-monetary costs.

Based on best available science and data - Use science, best data, and local and indigenous people’s knowledge in a transparent and documented process. When appropriate and possible, use data, information, planning methods, and analytical techniques that have undergone scientific review.

Proper Scale of Recommendations – Where practical, recommendations for state funding will be specific to a hydrologic region or smaller geographical unit. California is so diverse that uniform statewide water management policies often can be ineffective or not applicable in many localities and/or create unintended consequences.

Coordination and Consolidation - State government will closely coordinate internally and externally to ensure comprehensive, complementary or consolidated approaches to the extent possible. There are three key rationales for such coordination:

- The probability of one, cohesive proposal being implemented is much higher than a series of independent resource management-related action and policy proposals. This is particularly true regarding any new fees or taxes;

- Cumulative effects of multiple proposals is difficult to identify and manage

- A series of similar or competing resource-related proposals is fundamentally inconsistent with the principles of Integrated Water Management and could convolute decision-making processes.

Implementation of the Delta Plan will require an array of funding sources and authority. Diversity in financing will enhance revenue stability.

**Other?**

**Raising Revenues**

**Beneficiary Pays** – Ensure a close nexus between the allocation of the benefits of funding and the generation of revenue. A beneficiary is defined as ______. The Criteria for Prioritizing State Funding section contains a detailed description of all aspects of this concept. More importantly, it specifies a method for applying this principle to identify and prioritize appropriate uses of state funding.

**Incentives** – Incentives for innovation, sustainability and IRWM are within the scope of this Finance Plan. Incentives may be in the form of state funding criteria, seed money for project implementation or pricing signals.
Stressors Pay – A companion principle to “beneficiary pays” is “stressors pay.” Human activity that causes negative operational or environmental impacts should be assessed a fee to repair the damage. An example of the stressors pay approach was the Department of Fish and Game Bay Delta fishing license stamp fee, dedicated to protecting fisheries resources in and around the Delta.

To the extent possible, user fees should be volumetrically based for water diversions and for the discharge of contaminants. Other stressors that do not lend themselves to a volumetric-based quantification will require a different fee structure.

Other?

Allocating Funds

Appropriate Allocation of State Funding – There are three categories of State funding recommendations in the Finance Plan: (1) Funding for the creation of diffuse benefits to the State of California such as *public benefits* from new storage, ecosystem restoration, flood management, conveyance projects, etc; (2) Innovation and planning improvements such as implementing new technologies, R&D as well as planning and data programs; and (3) Financial assistance to inter-regional, regional, and local projects. Examples for financial assistance may include IRWM grant funding for regional priority actions, SRF loans for safe drinking water projects, or subvention funding to flood control projects. Criteria for prioritizing each type of funding are described in the Criteria for Prioritizing State Funding section.

Economic Efficiency – Seek to identify funding allocations that maximize the amount of benefits relative to cost. Optimum efficiency occurs at the margin where the cost for an additional increment of benefit (e.g. water reliability, flood risk reduction, etc) equals the value of that benefit. Note that the application of this principle is limited to funding allocations. This is different from the concept of allocating water supplies based on the value of the use (e.g. economic optimization of water allocation). The latter is not a guiding principle in this Finance Plan.

Assurance that state funding will be used to deliver desired resource management benefits. Continuous appropriation, user fees, private placement bonds, adaptive management and other concepts should be examined to support this principle. The Finance Plan should include mechanisms to ensure that user fees remain dedicated to their intended purpose. Given state and federal budget constraints, care must be taken to assure users that their contributions will not be diverted to other purposes.

Cost Containment –

Other?
Group Discussion

(1) What would you add, subtract or change about the principles to be considered for inclusion in the Finance Document?

(2) General discussion and clarifications

(3) Thinking about creating a successful financing approach for this document, what are the top 5-6 principles you believe your constituents and/or communities would expect to see in a document like this? (Note: you will be given dots to help you highlight the priorities. The facilitator will provide additional instruction.)
Agenda Item 5 - Joint Definition Building

The Finance Document will use a variety of terms that may or may not be common to readers. Some potential terms and sample (the sample is offered for illustration only) language for these terms follows. During your discussion, the Caucus is asked to build a joint definition for use in the document glossary.

RULES FOR THE DEFINITIONS:

- The sections do not need to be wordsmithed. The group may produce bullet point lists that outline the key elements of the definitions.
- Definitions should be neutral in nature. They should describe what is the proposed meaning without implying that the concept is either good or bad.
- Defer to approved Sources. Please reference known State of California or other commonly used sources for terms. For example the Water Plan has previously cited other agency planning documents and United Nations definitions for some terms. In many cases there are more than one. Please let us know about those the sources and the relative benefits of using one over another.
- Agreement is not required – please list areas of agreement and areas of disagreement.

<table>
<thead>
<tr>
<th>WORD</th>
<th>SAMPLE GLOSSARY ENTRY</th>
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<tbody>
<tr>
<td>Beneficiary pays</td>
<td>Ensure a close nexus between the allocation of the benefits of funding and the generation of revenue. A beneficiary is defined as _______.</td>
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<tr>
<td>User pays, or beneficiary pays, is a pricing approach based on the idea that the most efficient allocation of resources occurs when consumers pay the full cost of the goods that they consume. In public finance it stands with another principle of &quot;ability to pay,&quot; which states that those who have the means should share more of the burden of public services. For example, some believe the ability to pay principle is one the reasons for the general acceptance of the progressive income tax system. As long as the beneficiary aligns exactly with the user, the user pay principle works. Those who do not go to a movie are not obligated to pay for someone else to attend.</td>
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<tr>
<td>Stressor pays</td>
<td>A companion principle to “beneficiary pays” is “stressors pay.” In stressor pays, human activity that causes negative operational or environmental impacts is assessed a fee to repair the damage. An example of the stressors pay approach was the Department of Fish and Game Bay Delta fishing license stamp fee, dedicated to protecting fisheries resources in and around the Delta.</td>
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<tr>
<td>Public Benefits</td>
<td>See Appendix III in this document</td>
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<tr>
<td>Polluter pays</td>
<td>The party responsible for producing pollution responsible for paying for the damage done. As an example, the polluter pay principle underpins</td>
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environmental policy such as an ecotax, which, if enacted by government, is believed to deter and essentially reduce the emitting of greenhouse gas emissions. The U.S. Superfund law requires polluters to pay for cleanup of hazardous waste sites, when the polluters can be identified. Polluter pays is also sometimes known as extended polluter responsibility (EPR). EPR seeks to shift the responsibility dealing with waste from governments (and thus, taxpayers and society at large) to the entities producing it. In effect, it internalizes the cost of waste disposal into the cost of the product, theoretically meaning that the producers will improve the waste profile of their products, thus decreasing waste and increasing possibilities for reuse and recycling.

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APPENDIX I – Water Plan Standing Charter Language

All Water Plan advisory groups operate under similar basic ground rules and with the following basic charter guidelines. Please feel free to contact your facilitator or group leader if you have questions regarding the standing Charter Language.

EXECUTIVE SPONSOR

The Deputy Director responsible for production of the California Water Plan Update, within the Department of Water Resources, or his/her designee, serves as Executive Sponsor.

MEMBERSHIP

Members serve at the pleasure of the Executive Sponsor and may be added or removed as appropriate. The Executive Sponsor shall:

1. Seek to maintain a balance of perspectives in the group,
2. Have the ultimate responsibility for all appointments

Members serve as individuals and are expected to be proficient in the area of discussion and/or represent a specified community or constituency with a “stake” in California’s Water Plan.

ATTENDANCE

Members commit to maintaining the integrity of the group by attending meetings and will contact the Group Facilitator or Leader if unable to attend.

ROLES

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<tr>
<td>• Act as a liaison to communicate information to and from their organization</td>
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<tr>
<td>• Act in a manner that will enhance trust among fellow members</td>
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<tr>
<td>• Contribute data/information to clarify issues and eliminate false assumptions</td>
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<th>The Water Plan Team will:</th>
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<tr>
<td>• Provide staff support and, as needed, a professional Facilitator for the meetings</td>
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• Collect and organize data
• Draft text for group review
• Provide technical support to the effort
• Provide for the physical arrangements for the meeting
• Provide requested information

**Facilitators will:**
• Provide meeting and facilitation support to the effort
• Ensure the fairness and transparency of the process
• Provide process advice

**Executive Sponsor will:**
• Provide resources for the effort
• In consultation with other State Agencies, provide the policy perspective of the Administration
• Provide overall direction

**MEETING SCHEDULE**

Meetings will be convened as outlined in the specific Group Charge, on a regular basis and with notice provided in advance.

**INTERNAL AND EXTERNAL COMMUNICATIONS**

Minutes of meetings will be available to Members at a reasonable timeframe after the meeting. Members are encouraged to provide briefings on Water Plan activities to their organizations.

The Executive Sponsor may also provide briefings on group activities to key Executive staff of the Resources Agency, other Agencies and the Governor’s Office.

To maintain the most productive communications, Members are asked to adopt the following guidelines:

1. People will represent comments made in meetings as organizational or general group comments. Avoid personal references.
2. No specific point of view may be attributed as a statement or position of the group without an explicit agreement to do so.
3. Parties agree to act in Good Faith in all aspects of this consensus-seeking process and to communicate their interests. Offers made in frank conversations will not be
used against any party. This provision will not restrict the ability of Members to speak to the press or pursue legal strategies in the future.

4. Personal attacks or stereotyping will not be acceptable. Members will refrain from impugning the motivations or intentions of others.

5. Parties agree to not make commitments they do not intend to follow through with.

6. Parities will act consistently in other forums where similar issues are being discussed, including the press.

7. Parties agree to make a concerted effort to provide requested information to other Members or explain the reason why they could not do so.

**WITHDRAWAL**

Any Member or the Facilitator may withdraw at any time. Those withdrawing will be asked to communicate the reasons for withdrawal. Those leaving are expected to maintain the integrity of the ground rules and the process.

**DISCLOSURE**

During the course of the Water Plan deliberations it is likely significant policy issues will be discussed.

It is recognized that Members are associated with operating organizations and groups and have an obligation to make management decisions and take actions necessary for the proper function of those organizations. A stakeholder group may engage in such decisions and actions individually, or as a member of a coalition along with other stakeholder or non-stakeholder groups. The Water Plan Process is a long-term effort and during the course of Plan Updates, it is understood that stakeholder groups or coalitions will take public positions to protect their immediate interests. It is understood these interests may conflict with what is or might be derived from the Water Plan negotiations at any given point in time. Public positions taken in this context will not be considered a lack of commitment to the long-term mission.

Members embarking on a course that may result in conflict with immediate Water Plan deliberations are asked to advise the Facilitators and/or Group Leaders of potential and pending activities. These may include significant financial or policy decisions, proposed legislation, and public position statements by the groups regarding issues under the scope of the Water Plan. It is asked that this be done at the earliest feasible opportunity and the member suggest the best method to provide disclosure to the full group should it involve issues under the purview of the group. Such prior disclosure is not intended to prevent a Member from proceeding but instead is intended as a method to keep the group informed.
DECISION MAKING PROCESS

The Water Plan is a consensus seeking process. Specific items moved forward as a group product will be considered by the full body. Members will be permitted to note their level of consensus as ranging from Unqualified Support, Strong Support, General Support, Qualified Support, to Fundamental Disagreement. An issue without a broad degree of support will not move forward as a group product. The level of support for various items will be recorded. If an item receives a level of Fundamental Disagreement, the group will be asked to continue working until it appears a resolution is not attainable, or move on to an area where more agreement is possible. At that time the Executive Sponsor will note the nature of the disagreement and make a determination as to the best way to proceed in the particular issue area.

It is understood that Members may not always be able to commit their agency/organization to a particular conclusion; however, Members will operate and represent their organizations in good faith and contribute the best available information. Members are not required to commit to a position on any item.

OTHER

The Charter describes the work of the group. Changes may be adopted at the concurrence of the Members and the Executive Sponsor.
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Purpose and Use

Many policy-makers and stakeholders have expressed a need for a statewide, comprehensive Integrated Water Management\(^1\) Finance Plan (IWM Finance Plan) to help guide State funding decisions about generating and allocating state funds for effective resource management. Most critical decisions involve extraordinary complexity, uncertainty and controversy. The Update 2013 Finance Plan is designed to begin the process of providing practical decision-support through recommendations based on a distillation of complexities and a consensus-seeking effort with broad stakeholder participation. Subject areas where partial consensus remains elusive are also documented for consideration in subsequent Water Plan Updates. The Update 2013 Finance Plan will provide the context for financial planning activities across several State resource management programs. Recommended applications of the Finance Plan include, but are not limited to: (1) informing future general obligation bonds; (2) guiding future legislation pertaining to finance planning, funding sources, priorities and governance; (3) effective implementation of future state financial assistance; and (4) articulating recommended policy regarding State financial support of *regional*, *inter-regional\(^2\)* and *statewide* resource management planning and implementation.

Introduction

The Finance Plan is based on the foundational vision developed in the 2009 Update of the California Water Plan. Several additional guiding principles for developing and implementing State finance recommendations are described and applied within this Plan. Significant elaboration was necessary in order to evolve the vision and guiding principles such that they can meaningfully inform the finance recommendations. In some cases, the guiding principles may be reflected in a quantitative manner which enables closer alignment of principles and funding actions.

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\(^1\) The scope of Integrated Water Management includes water quality, water supply reliability, flood management, and ecosystem values and functions.

\(^2\) Inter-regional means the implementation or the resulting benefits of an action or policy involves more than one of California’s 10 hydrologic regions.
A broad approach was employed in developing this plan that goes beyond funding proposals and potential revenue generation. Generation of revenue, in and of itself, is a necessary but insufficient condition for the occurrence of *water management benefits*. There are many other planning and policy matters that must occur before any investment can effectively yield results. Such matters include assurances that revenues are used for their intended purpose, reliability of dedicated funding, consensus on what to implement, and good planning that increases the certainty that an action or policy will indeed produce desired benefits.

Imperative to Act

California is expected to face significant challenges surrounding IWM finance due to the near full allocation of existing bond funds and a protracted recession with no definitive signs of substantial recovery. The resulting challenge is the apparent lack of society's ability and/or willingness to pay\(^3\) for new IWM actions and policies. This challenge is occurring at a magnitude and duration\(^4\) that has not been experienced in many decades. At the same time, much of California's water and flood infrastructure is nearing (or has exceeded) its *design life*. Also, many heavily altered ecosystems are trending away from *natural equilibrium* and *sustainability* while *stressors* such as population growth and climate change impacts are expected to continue to exacerbate such financial challenges.

In recognition of such challenges, the Finance Plan includes decision-making criteria and recommendations under an assumed funding-constrained future condition. In general, the effects of sustained and severe funding constraints are that planners and decision-makers must adapt to "consumer response" to these conditions such as: (1) increasing emphasis on short-term economic benefits of investments such as creating or sustaining jobs; (2) increasing reliance on "triage actions" such as minimal operations and maintenance of existing infrastructure as opposed implementing new approaches and long term solutions; (3) reducing investment in programs with less certain outcomes.

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\(^3\) As signaled by passage of Propositions 218 and 26 as well as continued favorable public opinion of Proposition 13 property tax limitations, for example. This Plan does not support nor condemn this paradigm; rather it simply recognizes it as a challenge for IWM finance.

\(^4\) For several consecutive years public officials throughout the State have had to choose between resource management funding and foundational services such as sustaining public safety programs. General obligation bonds have been buffering the effect of this type of funding constraint, but all existing resource management bond funds will be fully allocated by 2016.
Guiding Principles

NOTE: This section will be developed during the May 19th Finance Caucus meeting using the handout associated with agenda item #5. The principles described below were assembled from Water Plan Update 2009, Delta Stewardship Council’s April draft Plan, and other sources.

In general, guiding principles describe the core values and philosophies that dictate how to achieve the vision, mission and goals. For the purposes of this Finance Plan, the guiding principles will describe how to make decisions regarding the development and implementation of the Plan. They are divided into three categories as follows: (1) Underlying Assumptions that overarch multiple dimensions of the Plan; (2) Guiding Principles for Raising Revenues; and (3) Guiding Principles for Allocating Funds.

Underlying Assumptions

Constitutional, Equal Interests - Environmental, economic and social interests shall equitably bear the burden of impacts and enjoyment of benefits with respect to future funding recommendations. One exception to this principle is the higher regard that may be granted to underserved households and areas of the State; possibly in the form of “lifeline” rates for new funding options, preferential treatment for awarding of state funding, etc. Underserved is defined as ______.

Collaboratively derived - Use a broad, stakeholder-based, long-view perspective for water management.

Full cost accounting - Determine values for economic, environmental, and social benefits, costs, and tradeoff to base investment decisions on sustainability indicators. Evaluate programs and projects recognizing economic growth, environmental quality, social equity, and sustainability as co-equal goals. When comparing alternatives, determine the value of potential economic, environmental and social benefits; beneficiaries; costs; and tradeoffs. Include a plan that avoids, minimizes, and mitigates for adverse impacts. Decisions about how to pay should be explicitly stated in terms of the monetary outlays and the non-monetary costs.

Based on best available science and data - Use science, best data, and local and indigenous people’s knowledge in a transparent and documented process. When appropriate and possible, use data, information, planning methods, and analytical techniques that have undergone scientific review.

Proper Scale of Recommendations - Where practical, recommendations for state funding will be specific to a hydrologic region or smaller geographical unit. California is ______.

5 California Water Plan Update 2009; Strategic Plan
so diverse that uniform statewide water management policies often can be ineffective or not applicable in many localities and/or create unintended consequences.

**Coordination and Consolidation** - State government will closely coordinate internally and externally to ensure comprehensive, complementary or consolidated approaches to the extent possible. There are three key rationales for such coordination:

- The probability of one, cohesive proposal being implemented is much higher than a series of independent resource management-related action and policy proposals. This is particularly true regarding any new fees or taxes;

- Cumulative effects of multiple proposals is difficult to identify and manage

- A series of similar or competing resource-related proposals is fundamentally inconsistent with the principles of Integrated Water Management and could convolute decision-making processes.

Implementation of the Delta Plan will require an array of funding sources and authority. Diversity in financing will enhance revenue stability.

**Raising Revenues**

**Beneficiary Pays** – Ensure a close nexus between the allocation of the benefits of funding and the generation of revenue. A beneficiary is defined as ______. The *Criteria for Prioritizing State Funding* section contains a detailed description of all aspects of this concept. More importantly, it specifies a method for applying this principle to identify and prioritize appropriate uses of state funding.

**Incentives** – Incentives for *innovation* and *sustainability* and *IRWM* are within the scope of this Finance Plan. Incentives may be in the form of state funding criteria, seed money for project implementation or pricing signals.

**Stressors Pay** – A companion principle to “beneficiary pays” is “stressors pay.” Human activity that causes negative operational or environmental impacts should be assessed a fee to repair the damage. An example of the stressors pay approach was the Department of Fish and Game Bay Delta fishing license stamp fee, dedicated to protecting fisheries resources in and around the Delta.

To the extent possible, user fees should be volumetrically based for water diversions and for the discharge of contaminants. Other stressors that do not lend themselves to a volumetric-based quantification will require a different fee structure.
Allocating Funds

**Appropriate Allocation of State Funding** - There are three categories of State funding recommendations in the Finance Plan: (1) Funding for the creation of diffuse benefits to the State of California such as *public benefits* from new storage, ecosystem restoration, flood management, conveyance projects, etc; (2) Innovation and planning improvements such as implementing new technologies, R&D as well as planning and data programs; and (3) Financial assistance to inter-regional, regional, and local projects. Examples for financial assistance may include IRWM grant funding for regional priority actions, SRF loans for safe drinking water projects, or subvention funding to flood control projects. Criteria for prioritizing each type of funding are described in the *Criteria for Prioritizing State Funding* section.

**Economic Efficiency** - Seek to identify funding allocations that maximize the amount of benefits relative to cost. Optimum efficiency occurs at the margin where the cost for an additional increment of benefit (e.g. water reliability, flood risk reduction, etc) equals the value of that benefit. Note that the application of this principle is limited to funding allocations. This is different from the concept of allocating water supplies based on the value of the use (e.g. economic optimization of water allocation). The latter is not a guiding principle in this Finance Plan.

**Assurance that state funding will be used to deliver desired resource management benefits.** Continuous appropriation, user fees, private placement bonds, adaptive management and other concepts should be examined to support this principle. The Finance Plan should include mechanisms to ensure that user fees remain dedicated to their intended purpose. Given state and federal budget constraints, care must be taken to assure users that their contributions will not be diverted to other purposes.

**Cost Containment** -

**Guidelines for Analysis**

This section could describe the steps on how we collect and develop information on costs, benefits, and finance options. This could include the discussion on topics such as period of analysis, cost allocation approaches, etc.

**Historical Funding of Resource Management**

*Under development*
Recent and Current Funding Practices

Alternatives to arraying by funding type are by agency or purpose

General Funds

Revenue Bonds

Fees, Fines and Licensure

General Obligation Bonds

<table>
<thead>
<tr>
<th>G.O Bond Fund</th>
<th>Initial Authorization</th>
<th>Percent/ Amount Remaining</th>
<th>Fully Allocated (Date)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Proposition 13</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Proposition 50</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Proposition 1E</td>
<td></td>
<td></td>
<td>2016</td>
</tr>
<tr>
<td>Proposition 84</td>
<td></td>
<td></td>
<td>2013</td>
</tr>
</tbody>
</table>

Statewide Summary of Funding Proposals

NOTE: The scope, level of detail and completeness of this section is unforeseeable due to the constraints described in the second paragraph of this section. The objective for the Update 2013 Finance Plan is to take this as far as possible and continue to evolve this section through subsequent Updates.

This section speaks to the question of how much funding is anticipated to be necessary to meet state, regional and local resource management objectives through 2050. The estimated response to this question is presented in the form of a range. This estimated range is rudimentary and intended only to provide a rough magnitude of potential
funding through the planning horizon. Explicitly using this range as a target in terms of total funding needs must occur with caution for the reasons described below.

While Volume 2 of the California Water Plan Update 2009 expresses statewide actions and policies, less than half of them include cost estimates and the costs are not necessarily additive. Also, there is no existing aggregation of (or readily available method for aggregating) local and regional resource management objectives/plans through 2050. Hence, an important cautionary note to this estimate is that assumptions, extrapolations and best guesses had to be made. The regional aggregation in this Plan was performed by examining IRWM Plans, Urban Water Management Plans, Groundwater Management Plans, Stormwater Management Plans and other local resource management plans and proposals (see Update 2013 Technical Appendix for complete listing of plans and proposals). Then, the regional aggregate was reconciled with the statewide resource management strategy estimates in the California Water Plan to remove any obvious overlaps.

Table # summarizes the range of statewide, regional and local IWM funding proposals through the year 2050. Costs include planning, capital, regulatory compliance, operations, maintenance and financing expenses where possible.

Insert Table # here – include lots and lots of caveats

Criteria for Prioritizing State Funding

This section describes criteria for assessing if, and to what extent, State funding may be recommended for IWM planning and implementation actions and policies. The criteria are also assembled into a framework (decision tool) for guiding such funding decisions. Because the criteria vary relative to the three categories of actions/policies for potential State funding (as described in the Guiding Principles for Developing and Implementing the Finance Plan section), one decision tools is constructed for each category of funding. The intended application of these tools is to provide a step by step approach for State planners and decision-makers. This section also addresses adaptive management which is an important approach used to overcome the uncertainties inherent in IWM.

As described in the guiding principles, the Finance Plan recommendations include three state funding categories: (1) project or programs that create diffuse public benefits to the State of California; (2) improvements in innovation, technology, planning and data programs; and (3) financial assistance to inter-regional, regional and local projects.

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6 Volume 2 of Update 2009 presents information on 27 individual Resource Management Strategies.
7 This plan does not address the scientific elements or remedial measures of adaptive management rather, it provides guidelines for securing, allocating and managing funding associated with adaptive management.
NOTE: Build criteria from the goals, vision, principles etc of Update 2009; with refinements, elaboration and new criteria from Finance Caucus. It must include a method for teasing out public benefits of regional actions. This should consider the CWC public benefits guidelines, LAO Public Purpose narrative, etc.

Sample criteria:
- Economic efficiency
- Water/Energy Nexus
- Identification/quantification of public benefits
- Sustainability
- Multiple objectives
- Cost effectiveness
- Local commitment to cost sharing
- Other

Criteria for Funding Statewide IWM Public Benefits

Figure 1-1 titled Criteria for Funding Statewide IWM Public Benefits provides a decision tool for guiding decisions regarding actions or polices that provide benefits to the general public.

Examples include state funding of public benefits related to water quality, fisheries habitat, recreation, emergency response, flood control, or other action that yields a public benefit. The types of projects that may be eligible to compete for state funding include, but are not limited to:

1. New or enlarged groundwater storage
2. New or enlarged surface storage
3. Conjunctive use
4. Reservoir reoperation
5. Local and regional surface storage projects that improve the operation of water systems in the state
6. Ecosystem conservation or restoration
7. Other

Criteria for Funding Innovation and Planning Improvements

Figure 1-2 titled Criteria for Funding Innovation and Planning Improvements provides a decision tool for allocation of state funding to:

1. Improve data collection & exchange
2. Develop analytical tools for integrated water management
3. Water technology R&D
4. Promote and incentivize water data collection, management, distribution, access, and exchange/sharing
5. Conduct more coordinated and integrated resources planning among State government agencies and with Regional collaboratives and Federal agencies that manage about 50 percent of the land in California
6. New analytical methods
7. Promote and incentivize communication, coordination and collaboration among water planners/managers, land use planners/decision makers, and other resource managers at the regional and watershed scale
8. Advance, improve and commercialize new water/energy technologies (example -- CEC’s PIER Program and CCST's water initiative)
9. Other

Criteria for Regional and Inter-regional Financial Assistance

Figure 1-3 titled Funding Criteria for Awarding IRWM Financial Assistance provides a decision tool for allocation of state funding for portions of inter-regional, regional and local plans or projects. It is largely modeled after the existing IRWM regional acceptance process, IRWM guidelines and other ongoing and emerging state financial assistance methodologies. Examples include:

1. Regional projects included in IRWM Plans and/or its component plans (these projects would include different mixes of the Water Plan's 27 resource management strategies depending on the region/location technology
2. Inter-regional projects that would benefit two or more regions such as conjunctive use, environmental stewardship, or Delta improvements.
3. Other

Adaptive Management Funding

Securing funding for adaptive management can be very difficult due to vastly differing time frames that can occur within packages of multi-objective actions. For example, generally if something is constructed such as a desalination plant, water supply benefits begin accruing immediately, while projects involving ecosystem restoration can take several generations before benefits occur. Therefore, to ensure effective adaptive management, funding must often be secured over a very long period of time. Below are some criteria for determining proper levels and methods for funding adaptive management.
# Funding Sources

## Existing Sources

NOTE: This section will describe existing state funding alternatives in the context of use for future IWM finance. A table might not be the optimum final format, but the table below is provided to start identifying useful information.

<table>
<thead>
<tr>
<th>Funding Source/ Type</th>
<th>Description</th>
<th>Appropriate Uses</th>
<th>Comments</th>
<th>Other Topics</th>
</tr>
</thead>
<tbody>
<tr>
<td>General Obligation Bonds</td>
<td>Long-term borrowing in which the state issues municipal securities and pledges repayment with interest. Such bonds are backed by the State General Fund.</td>
<td>Funding capital assets for a wide variety of water management actions.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Revenue Bonds</td>
<td>Issued by governments and municipalities that are guaranteed by the revenue flow from a specific project.</td>
<td>Large-scale; short duration capital projects associated with a specific project such as water supply.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>State General Fund</td>
<td>Authorized by the Legislature.</td>
<td>Small scale, longer-term streams for activities such as planning, R&amp;D or cost-sharing incentives.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Federal Funds</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>User Fees</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Build America Bonds</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Special Assessment Bonds</td>
<td>A municipal bond with debt service limited to revenues from assessments against those who directly benefit from the project.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fines and Licensure</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other?</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Potential New Revenue Sources

NOTE: This section will describe existing state funding alternatives in the context of future IWM finance. A table might not be the optimum final format, but the table below is provided to start identifying useful information.

NOTE: Include innovative funding sources from outside of California, or approaches that work for other utilities

<table>
<thead>
<tr>
<th>Funding Source/Type</th>
<th>Description</th>
<th>Appropriate Uses</th>
<th>Comments</th>
<th>Other Topics?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Stressor Fees</td>
<td>Fees with an occurrence and magnitude tied to an undesirable impact caused by a beneficiary such as water diversion, water quality degradation,</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Taxes

Private Investment

Public Goods Charge

Loans (Low and No Interest) | | Repayment would help ensure the long term viability funding program |

Other?

Funding-Constrained Future Conditions

Reasons that we are likely to have a funding constrained future
What a funding constrained future will look like
What are the “consumer responses” for setting priorities under severe and sustained funding constraints?
Reduced the cost of administering and complying with State financial assistance programs
Increased emphasis on short-term economic benefits of investments such as creating or sustain jobs;
Increased reliance on triage actions in lieu of new approaches and long term solutions;
Reduced investment in programs with less certain outcomes

Conclusions or consequences of constrained funding
Increasing flood risk
Reduced supply reliability
Declining ecosystems

Update 2013 Finance Plan
Recommendations
Under development

State Funding Recommendations

Programs, Plans and Projects

Existing Revenue Sources

New Revenue Sources

Governance and Accountability

Administration of State Funds
Allocation and Awarding of Funds

Auditing Process
Assurance of Intended Usage and Targeted Benefits
Continuous Appropriation
Adaptive Funding Streams

Recommendations under A Funding-Constrained Future

Appendix A: Methods, Assumptions and Data for Estimating Costs through 2050

Appendix B: Compilation of Regional and Local Programs, Plans and Projects (used to develop recommendations)

Appendix C: Compilation of State Programs, Plans and Projects (used to develop recommendations)

Appendix D: Glossary
Appendix III - Roles and Responsibilities of the California Water Commission

(extracts from Chapter 8 of SBX7 2)

79740. (a) ...the commission may make the determinations, findings, and recommendations required of it by this chapter independent of the views of the director. (b) ... $3,000,000,000 is hereby continuously appropriated from the fund, without regard to fiscal years, to the commission for public benefits associated with water storage projects that improve the operation of the state water system, are cost effective, and provide a net improvement in ecosystem and water quality conditions, in accordance with this chapter. ...

(c) Projects shall be selected by the commission through a competitive public process that ranks potential projects based on the expected return for public investment as measured by the magnitude of the public benefits provided, pursuant to criteria established under this chapter.

79741. Projects for which the public benefits are eligible for funding under this chapter consist of only the following:
   (a) CALFED Surface storage projects
   (b) Groundwater storage projects
   (c) Conjunctive use and reservoir reoperation projects.
   (d) Local and regional surface storage projects that improve the operation of water systems in the state and provide public benefits.

79742. A project shall not be funded pursuant to this chapter unless it provides measurable improvements to the Delta ecosystem or to the tributaries to the Delta.

79743(a) Funds allocated pursuant to this chapter may be expended solely for the following public benefits associated with water storage projects:
   (1) Ecosystem improvements…
   (2) Water quality improvements in the Delta…
   (3) Flood control benefits…
   (4) Emergency response…
   (5) Recreational purposes…

79744. In consultation with the Department of Fish and Game, the State Water Resources Control Board, and the department, the commission shall develop and adopt, by regulation, methods for quantification and management of public benefits described in Section 79743 by December 15, 2012. The regulations shall include the priorities and relative environmental value of ecosystem benefits as provided by the Department of Fish and Game and the priorities and relative environmental value of water quality benefits as provided by the State Water Resources Control Board.

79745. (a) ...no funds ...may be allocated for a project before December 15, 2012, and until the commission approves the project based on the commission’s determination that all of the following have occurred:
(1) The commission has adopted the regulations … and specifically quantified and made public the cost of the public benefits associated with the project.
(2) The department has entered into a contract with each party that will derive benefits, …
(3) The department has entered into a contract with each public agency identified … that administers the public benefits…
(4) The commission has held a public hearing …
(5) All of the following additional conditions are met:
   (A) Feasibility studies have been completed.
   (B) The commission has found and determined that the project is feasible, is consistent with all applicable laws and regulations,…
   (C) All environmental documentation … has been completed, and all other federal, state, and local approvals… have been obtained.
(b) The commission shall submit to the Legislature its findings for each of the criteria identified in subdivision (a) for a project funded pursuant to this chapter.
(c) Notwithstanding subdivision (a), funds may be made available under this chapter for the completion of environmental documentation and permitting of a project.