

DEPARTMENT OF FINANCE BILL ANALYSIS

AMENDMENT DATE: April 25, 2011
POSITION: Oppose

BILL NUMBER: AB 565
AUTHOR: W. Monning

BILL SUMMARY: State Coastal Conservancy: San Clemente Dam

This bill would authorize the State Coastal Conservancy (Conservancy) to award a grant to California American Water (CAW), a for-profit entity, to remove or alter the San Clemente Dam if the Conservancy finds that the project is of regional or statewide significance and that a grant to a public agency or nonprofit organization would not achieve removal or alteration of the dam.

FISCAL SUMMARY

To date, total funding for the proposed grant is \$34 million, of which only \$19.4 million (\$18 million state funds and \$1.4 million federal funds) has been secured. The Conservancy would provide \$7 million Proposition 84 funds, of which \$790,000 has already been spent for planning activities. The Natural Resources Agency also would provide \$4 million Proposition 40 funds, and the Wildlife Conservation Board would provide \$7 million Proposition 40 funds. In addition, the National Oceanic and Atmospheric Administration would provide \$1.4 million. All of the bond funds have already been appropriated to the departments, and the Conservancy would serve as a clearinghouse to disburse the state funds and the federal funds to CAW through a grant agreement. No additional funding is secured for the balance.

The proposed grant would be for a profit-making entity. The State Treasurer's Office and the bond counsel may determine that it is necessary to issue taxable bonds, instead of nontaxable bonds, for the proposed grant. In general, interest rates for taxable bonds are higher than for nontaxable bonds. Based on the bond sale in fall 2010, we estimate that if the state were to issue taxable bonds for \$18 million, as opposed to nontaxable bonds for the proposed grant, the state would have to pay an additional \$11 million General Fund in interest over the 30 year life of the bond.

COMMENTS

Finance is opposed to this bill because sufficient funding for the project has not been fully secured, which would create additional cost pressure to the General Fund.

The San Clemente Dam is a 90 year old, 106-foot high, concrete dam located approximately 18.5 miles from the Pacific Ocean on the Carmel River. CAW, a for-profit company, owns and operates the dam. Currently, the reservoir is over 90 percent filled with sediment and is no longer useful for supplying water to residents in the Monterey Peninsula.

In the early 1990s, the Department of Water Resources issued a safety order determining that the San Clemente Dam structure could potentially fail in the event of a maximum earthquake or a maximum flood. If the dam were to fail, 2.1 million cubic yards of sediment and over 40 million gallons of water would rush downstream to the area that has 1,500 homes and other buildings.

(Continued)

Analyst/Principal Date Program Budget Manager Date
(0633) M. Almy Karen Finn

Department Deputy Director Date

Governor's Office: By: Date: Position Approved
Position Disapproved

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COMMENTS (Continued)

According to the Planning and Conservation League, the San Clemente Dam is also a barrier to threatened steelhead trout. CAW's least costly option to address the dam safety issue is to buttress the dam for approximately \$49 million. A draft Environmental Impact Report highlighted four alternatives to buttressing, including the alternative of rerouting of the Carmel River and removal of the dam. This alternative would address the dam safety issue and benefit the environment by providing access for steelhead trout and over 25 miles of spawning and rearing habitat.

The total project cost for the removal and rerouting alternative is currently estimated at \$83 million. CAW would contribute \$49 million, and the state and the federal government together would contribute the remaining \$34 million. The Conservancy has secured \$18 million state funds, including \$4 million Proposition 40 funds from the Natural Resources Agency, \$7 million Proposition 40 funds from the Wildlife Conservation Board, and \$7 million Proposition 84 funds from the Conservancy. The Conservancy also has secured approximately \$1.4 million from the federal government. Consequently, only \$68.4 million of the \$83 million is secured. The Conservancy indicates that it will continue to request and apply for various state and federal funds for the remaining \$14.6 million needed for the project. However, should the Conservancy fail to secure this additional funding, the bill would result in pressure to finance the project with General Fund.

The Conservancy would serve as a clearinghouse to disburse the state and federal funds to CAW through a grant agreement. According to the Conservancy, CAW would manage the project, and two years after the completion of the project, CAW would donate approximately 900 acres to the federal government. The federal government would then manage the land for watershed conservation and compatible public access purposes. We note that the transfer agreement has not been finalized.

Code/Department Agency or Revenue Type	(Fiscal Impact by Fiscal Year)									Fund Code
	SO	(Dollars in Thousands)								
	LA	CO	PROP	FC	2011-2012	FC	2012-2013	FC	2013-2014	
	RV	98								
0540/Secy Nat Res	SO	No				See Fiscal Summary				6029
3640/Wildlife	SO	No				See Fiscal Summary				6029
3760/Coast Consvr	SO	No				See Fiscal Summary				6051
<u>Fund Code</u>	<u>Title</u>									
6029	Cln Wtr, Cln Air, Cstl Protc Fd, CA									
6051	SafeDrinkWtr,WtrQual/Sup,FldCtrl,RvrCstl									