

Referendum A Revenue Bonds for Water Projects

1 The ballot question:

- 2 ♦ allows the Colorado Water Conservation Board to borrow up to \$2 billion for
3 public and private water projects by issuing bonds;
- 4 ♦ requires the bonds to be repaid from the water projects' revenue and limits the total
5 repayment cost, including interest, to \$4 billion; and
- 6 ♦ exempts the bonds, interest, and project revenue from state revenue and spending
7 limits.

8 **Background**

9 Colorado is a semi-arid state that occasionally experiences extended droughts. The majority
10 of the state's precipitation falls as snow in the mountains. Over 2,000 dams and reservoirs have been
11 built in the state to save snow melt and rain for use throughout the year and during droughts.
12 Combined, these reservoirs can hold over 6 million acre-feet of water that is used by farms, homes,
13 businesses, and other users. An acre-foot is 325,851 gallons or approximately the amount of water
14 used by one to two households in a year. About 80 percent of the state's precipitation falls west of
15 the continental divide, while most of the state's population and agricultural lands are east of the
16 divide. Consequently, many miles of canals and pipelines have been built to move water across the
17 state from where it is found naturally to where it is needed.

18 ***Water supply alternatives.*** Colorado's rapid population growth and recent drought have led
19 many cities and other users to search for new water supplies. Depending on geography, financial
20 resources, and other factors, a user may have several sources from which to obtain more water. For
21 example, some front range cities may tap into a large groundwater aquifer. Other cities may purchase
22 water from farms, which own most of the water used in Colorado. Cities may also tap into western
23 rivers, which hold most of the state's remaining unclaimed river water. Finally, users may extend
24 existing supplies by increasing water conservation or reuse.

25 ***Current funding mechanisms for water supply projects.*** Currently, cities and other water
26 providers have several options to pay for water projects, including issuing bonds and imposing fees
27 or taxes. Two state entities provide funding for water projects. The Colorado Water Conservation
28 Board has approximately \$25 million available annually for small loans and grants for farmers, cities,
29 business, and government agencies. The Colorado Water Resources and Power Development
30 Authority may issue up to \$500 million in bonds per project on behalf of public entities. While federal

1 moneys paid for many of the large water projects in Colorado, federal support for major new water
2 projects has declined significantly in recent years.

3
4 ***How would the water project revenue bonds work?*** Under this proposal, governments,
5 private entities, and public-private partnerships may propose projects to acquire water rights, build
6 new storage, improve existing facilities, or increase water conservation. Ineligible projects include
7 public waste water and drinking water projects and projects costing less than \$5 million. The
8 Colorado Water Conservation Board must evaluate requests for funding and may make
9 recommendations to the Governor. If the Governor approves a project, the board borrows money
10 for the project by issuing revenue bonds. The total amount of money the board may borrow is \$2
11 billion, while the total repayment costs, including principal, interest, and other costs, cannot exceed
12 \$4 billion. Of the \$2 billion total, at least \$100 million must be set aside to improve existing facilities
13 or to pay for water conservation measures. The bonds would be repaid from revenue produced by
14 the water projects. The state is not responsible for any repayment costs.

15 ***What is the Colorado Water Conservation Board?*** Since 1937, the board has been the
16 state's primary water policy and planning agency. In addition to making grants and loans, the board
17 and its staff work on water supply planning, flood and drought protection, protection of
18 environmental water rights, and data collection. The ten voting members of the 15-member board
19 are appointed by the Governor and approved by the state Senate. These members are from the state's
20 major river basins and the City and County of Denver. Four of the Governor's appointments must
21 live west of the continental divide. The five non-voting members of the board include the heads of
22 the state water, agriculture, and wildlife agencies and the Colorado Attorney General.

23 **Arguments For**

24 1. More water storage may lessen the impact of drought and provide economic benefits. The
25 recent drought emptied many agricultural reservoirs and severely depleted municipal reservoirs.
26 Another year of drought could have been catastrophic for farmers and others who depend on water
27 for their livelihood. Additional storage may prevent this outcome in the future and help cities avoid
28 placing restrictions on lawn watering and increasing fees on large water users during less severe
29 droughts. It could also provide an alternative to pumping expensive and nonrenewable ground water
30 or buying water from farms. Furthermore, new storage will help Colorado keep water that would
31 otherwise be lost to downstream states.

32 2. This proposal gives communities another option to fund a broad range of water projects.
33 For example, some may want to expand an existing reservoir or move more water from western
34 rivers. Still others may want to increase water conservation or restore an aging dam. By allowing
35 funding for private entities, this proposal also might lead to public-private partnerships where the
36 skills and money of each sector can be combined to solve shared water supply problems.

37 3. Administration of the program by the board brings expertise and experience from across

1 the state. The board's diverse membership allows it to consider the interests of the state's different
2 regions. For example, with four members from west of the continental divide, the board may be less
3 likely to approve projects that harm western communities. Other members may help ensure that
4 agriculture and the environment are represented. Prior to recommending a project, the board may
5 impose requirements to limit the negative impacts of water projects. The board also has the expertise
6 to determine whether a project is feasible. Finally, the board is currently conducting a water supply
7 investigation with the assistance of local communities to identify water needs and projects in each
8 river basin.

9 **Arguments Against**

10 1. This proposal does not adequately protect the public interest. Within the \$4 billion
11 repayment limit, there is no limit on the term of the bonds, interest rates, total interest paid, or
12 administrative costs. For example, the board could issue \$1 billion in bonds that have \$3 billion of
13 additional costs. The board has no experience in issuing bonds and may not have the expertise to
14 make sure the state and its water users get the best financing. In addition, the proposal does not
15 include a list of specific projects. The board also must recommend two projects from different river
16 basins with a start date of 2005. Water projects, however, generally require many years to plan and
17 permit, and the board may be limited to recommending projects that are not ready for funding.
18 Finally, having an elected state official make decisions about building water projects may politicize
19 a decision that has historically been made by local communities.

20 2. Building more water storage to withstand a severe drought that may not occur for decades
21 or even centuries may waste money. It may also encourage inefficient water use during wet years.
22 Only more rain and snow will end the effect of the state's recent drought. Colorado has endured the
23 worst drought in its history by carefully using existing water storage. Furthermore, this proposal does
24 not change federal environmental laws and local government land use restrictions, which have been
25 greater obstacles to major water projects than lack of funding. Another funding source for water
26 projects is unnecessary because cities and other public entities already have the authority to issue
27 bonds. Finally, the government should not borrow money for the benefit of private entities.

28 3. Water projects can negatively impact the environment and local communities. Some water
29 projects can flood scenic areas and damage wildlife habitat by changing water temperatures and
30 eliminating or greatly reducing stream flows in certain areas. Others can increase water treatment
31 costs and limit future economic development of communities that are downstream from projects that
32 remove large amounts of water from a river. The board is not required to consider cheaper and less
33 harmful water supply alternatives before funding new dams and other projects. These alternatives
34 include increasing residential efficiency, better managing existing storage capacity and ground waters,
35 and obtaining temporary water transfers from farms during dry years.

1 **Estimate of Fiscal Impact**

2 This proposal allows the state to borrow up to \$2 billion for water projects. It also requires
3 the bonds to be repaid from water project revenue and limits the total repayment cost to \$4 billion.
4 This proposal will not affect other state revenues. However, it is expected to increase state and local
5 government spending. State expenditures by the board will increase by \$50,000 in budget year
6 2003-04 to pay for writing rules to administer the water bonding program. Beginning July 1, 2004,
7 the proposal is expected to cost up to \$115,000 annually to evaluate projects and develop
8 recommendations to the Governor. The state may experience additional costs depending upon the
9 number and complexity of projects that are reviewed by the board. The state may also experience
10 additional costs if the board sponsors a water project.

11 Local governments may be required to spend significant amounts of money studying the
12 feasibility of a project before applying for funding from the board. They may also be required to pay
13 for the board's costs to review and evaluate a project. If approved, these costs may be repaid by the
14 bonds. However, if a request for funding is denied by the board or the Governor, the local
15 government will be responsible for paying for the feasibility studies. A local government would also
16 be required to pay for the costs of issuing bonds from user fees.