

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**

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

17 ***Water supply alternatives.*** Water providers and water users have several sources from which
18 to obtain more water, depending on geography, financial resources, and other factors. For example,
19 water providers, such as cities or water districts, and water users, including farms and businesses, may
20 tap into a groundwater aquifer. Providers and users may also purchase or lease water from farms and
21 ranches, which own most of the water used in Colorado. Or, they might draw water from western
22 rivers, which hold most of the state's available river water. In addition, existing supplies may be
23 extended through reuse or by encouraging conservation through drought-tolerant landscaping, water-
24 efficient appliances, or increasing water rates.

25 ***Current funding mechanisms for water projects.*** Currently, cities and other water providers
26 have several options to pay for water projects, including borrowing money and imposing fees or
27 taxes. In addition, two state entities provide funding for water projects. The Colorado Water
28 Resources and Power Development Authority may issue up to \$500 million in bonds for each public
29 entity participating in a project. The Colorado Water Conservation Board provides approximately
30 \$25 million annually for loans and grants to farmers, cities, businesses, and government agencies.
31 Federal funding is also available, although federal support for major new water projects has declined
32 significantly in recent years.
33

1 ***How would the water project revenue bonds work?*** Under this proposal, public entities such
2 as cities, water districts, or state agencies, private entities, or combinations of the two may propose
3 water projects. The projects may acquire water rights, build new storage, improve existing facilities,
4 or increase water conservation. Projects may also protect agricultural water, provide environmental
5 or recreational benefits, or assist communities affected by water projects. Ineligible projects include
6 public waste water and drinking water projects, and projects costing less than \$5 million. The
7 Colorado Water Conservation Board must evaluate requests for funding and may recommend
8 projects to the Governor for final approval. If the board makes recommendations, it must recommend
9 at least two projects from different river basins with a start date of 2005. The Governor must
10 approve at least one of these projects.

11 Upon approval of a project by the Governor, the board may issue revenue bonds. Principal
12 and interest on the bonds issued under this proposal are payable solely from the revenue produced
13 by the water projects or related revenue sources. For all projects, the total amount of money the
14 board may borrow is \$2 billion, while the total repayment costs of the revenue bonds, including
15 principal and interest, cannot be more than \$4 billion. Of the \$2 billion total, at least \$100 million
16 must be set aside to improve existing facilities or to pay for water conservation measures.

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

26 **Arguments For**

27 1. Financing the construction of more water storage may help provide water for Colorado's
28 growing population, the increased demand for recreational and environmental uses of water, and
29 drought relief. The recent drought emptied many agricultural reservoirs and severely depleted
30 municipal reservoirs. Another year of drought could have been catastrophic for farmers and others
31 who depend on water for their livelihood. Additional storage may prevent such an outcome in the
32 future and help avoid restrictions on lawn watering and increased water fees. Moreover, in most
33 years, Colorado does not have enough storage to hold all the water it is allowed by law to keep.
34 Storing water that is currently lost to downstream states could provide an alternative to pumping
35 expensive and nonrenewable ground water or buying water from farms or ranches.

36 2. This proposal offers water providers and users another option to pay for a broad range of
37 water projects. For example, some may want to expand an existing reservoir or move water from
38 one part of the state to another. Still others may want to increase water conservation or restore an
39 aging dam. By allowing private entities to participate, this proposal might lead to public-private

1 partnerships where the skills and money of each sector can be combined to solve shared water supply
2 problems. At the same time, the proposal does not dictate specific water projects or require
3 participation in the water bond program.

4 3. Having a single state agency evaluate and obtain financing for projects proposed under this
5 program may increase efficiency. Administration of the program by the board brings expertise and
6 experience from across the state on water issues. The board's geographically diverse membership
7 allows it to consider the interests of small and large communities, the state's different regions, and the
8 state as a whole. The board is currently conducting a statewide water supply study with the
9 assistance of local communities to identify water needs and projects in each river basin that could be
10 financed by this proposal. In addition, the board has the expertise to determine whether a project is
11 feasible.

12 **Arguments Against**

13 1. This proposal grants too much authority to the board and leaves many unanswered
14 questions. Within the \$4 billion repayment limit, there is no limit on the length of the bonds, interest
15 rates, total interest paid, or administrative costs. In addition, the proposal does not include a list of
16 specific projects. The board has no experience in issuing bonds and may not have the expertise to
17 make sure the best financing is obtained. Also, water projects generally require many years for
18 planning and approval. As a result, the board might recommend projects with a start date of 2005
19 that are neither desirable nor ready for funding. Having a single elected state official determine
20 whether projects recommended under this program are approved may further politicize a decision that
21 has historically been made at the local level.

22 2. Another financing tool is not necessary to address Colorado's water needs. Cities and
23 other water providers already have the authority to issue their own bonds. They also may obtain
24 financing through the Colorado Water Resources and Power Development Authority or loans and
25 grants from the Colorado Water Conservation Board. Private entities do not need this program
26 because they can borrow money on their own. In addition, this proposal does not change federal
27 environmental laws and local government land use restrictions, which have been greater obstacles to
28 major water projects than lack of funding.

29 3. Water projects can have a negative effect on the environment and local communities.
30 Some water projects can flood scenic areas and damage wildlife habitat by changing water
31 temperatures and eliminating or greatly reducing stream flows in certain areas. Others can increase
32 water treatment costs and limit future economic development opportunities for communities located
33 downstream from projects. The board is not required to take into account potential damage to an
34 area's environment or economy, or to consider cheaper water supply alternatives. These alternatives
35 include increasing residential and agricultural efficiency, conservation, or obtaining temporary water
36 transfers from farms during dry years.

1 **Estimate of Fiscal Impact**

2 This proposal will not affect state revenues. However, it is expected to increase state and
3 local government spending. The board will incur costs of \$20,000 in budget year 2003-04 to pay for
4 writing rules to administer the water bonding program. Beginning July 1, 2004, the board will incur
5 costs of up to \$115,000 annually to administer the program. It will incur additional costs to evaluate
6 projects and develop recommendations for the Governor, to issue the bonds, and to oversee a
7 project's final design and construction. The amount of additional costs depends upon the number and
8 complexity of projects the board reviews.

9 Local governments may be required to spend significant amounts of money studying the
10 feasibility of a project if they apply for funding from the board. They may be required to pay for the
11 board's costs to review and evaluate a project, for the costs of issuing bonds, and for the board's
12 oversight costs. They also will be responsible for repaying the bonds plus interest.

13 If the board or other state agency proposes a water project, the board or agency will incur
14 costs similar to those of local governments.