

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
10 *Why is this proposal on the ballot?* This year a state law was passed that allows the
11 Colorado Water Conservation Board, a state agency, to borrow money for water projects. The
12 Colorado Constitution, however, requires voter approval to allow the state to borrow the money and
13 to exempt the money from state spending limits. For this reason, the state legislature is submitting
14 to the voters the question of whether to borrow money for water projects and exempt the money
15 from state spending limits.

16 *Borrowing limits.* The proposal allows the Colorado Water Conservation Board to borrow
17 up to \$2 billion by issuing revenue bonds. The \$2 billion may be borrowed for one or more water
18 projects over a period of years. The total principal and interest payments cannot exceed \$4 billion.
19 The borrowed money must be repaid from revenue received from the projects. Of the \$2 billion total,
20 at least \$100 million must be set aside to improve existing water facilities or to pay for water
21 conservation measures.

22
23 *What types of projects qualify for funding?* Projects eligible for funding may acquire water
24 rights, build new storage, improve existing facilities, or increase water conservation. Projects may
25 also provide environmental and recreational benefits, protect agricultural water, or assist communities
26 negatively impacted by water projects. Ineligible projects include public waste water and drinking
27 water projects, and projects costing less than \$5 million.

28 *How would projects be approved?* Under state law, public entities such as cities, water
29 districts, or state agencies; private entities; or combinations of the two may propose water projects
30 to the Colorado Water Conservation Board. The board must evaluate requests for funding and may
31 recommend projects to the Governor for final approval. If the board makes recommendations, it must
32 recommend at least two projects from different river basins with a start date of 2005, one of which

1 must be approved by the Governor. Upon approval of a project by the Governor, the board may
2 borrow money by issuing bonds.

3 ***What is the Colorado Water Conservation Board?*** Since 1937, the Colorado Water
4 Conservation Board has been the state's primary water policy and planning agency. The board and
5 its staff work on water supply planning, flood and drought protection, and data collection. The board
6 also regulates water levels in streams and lakes to preserve the natural environment. The ten voting
7 members of the 15-member board are appointed by the Governor and approved by the state Senate.
8 The voting members include the director of the Department of Natural Resources and representatives
9 from the state's major river basins and the City and County of Denver. Four of the voting members
10 must live west of the continental divide. The five non-voting members of the board include the
11 director of the board, the directors of the state water, agriculture, and wildlife agencies, and the
12 Attorney General.

13 ***Why Colorado builds water projects.*** Colorado is a semi-arid state that experiences
14 droughts. Most of the state's precipitation falls west of the continental divide as snow in the
15 mountains. Water projects, such as dams, capture snowmelt and rain for use throughout the year and
16 during droughts. Many miles of pipelines and ditches have also been built to move water from where
17 it is found naturally to where it is used.

18 ***Current funding mechanisms for water projects.*** Currently, water users pay for water
19 projects by borrowing money and imposing fees or taxes. In addition, two state entities provide
20 funding for water projects. The Colorado Water Resources and Power Development Authority may
21 issue up to \$500 million in bonds for each public entity participating in a project. The Colorado
22 Water Conservation Board provides approximately \$25 million annually for loans and grants to public
23 and private entities. Federal funding may also be available, although federal money for major new
24 water projects has declined in recent years.

25
26 ***Water supply alternatives.*** Water users, such as cities, water districts, businesses, and
27 farmers, may obtain new water from several sources. These sources include pumping water from
28 underground, purchasing or leasing water from farms and ranches, or drawing water from western
29 rivers, which hold most of the state's available river water. In addition, water users can extend
30 existing supplies through reuse, restrictions on water use, or by encouraging conservation through
31 drought-tolerant landscaping, water-efficient appliances and equipment, and increased water rates.
32 The availability of these water supply alternatives depends on the location of the water user and the
33 cost of obtaining the water.

34 **Arguments For**

35

36 1. A new option for financing water projects will help provide additional water for Colorado's
37 new residents, protect against future droughts, and meet the increasing demand for recreational and
38 environmental water uses. The recent drought emptied or depleted many reservoirs, resulting in
39 financial hardship for people who depend on water for their livelihood, restrictions on lawn watering,
40 and drought-related fee increases. Additional water storage might protect Coloradans from similar

1 drought impacts in the future. Moreover, in most years, Colorado does not have enough storage to
2 hold all the water it is allowed by interstate law to use. Storing water that is currently lost to
3 downstream states provides an alternative to pumping expensive and nonrenewable ground water or
4 buying water from farms or ranches.

5 2. This program provides a process for water users to work together on projects that benefit
6 a number of users, but that may be too costly for individual users to build. For example, a single
7 project could provide water for a city, recreation, and farms, and generate money to compensate an
8 area that loses water because of the project. This program also encourages public-private
9 partnerships, where the skills and money of each sector can be combined to solve shared water supply
10 problems. At the same time, the program does not dictate specific water projects, require
11 participation, or eliminate government permitting requirements. It simply allows the board to obtain
12 financing for water projects using a method similar to that used by the Colorado Department of
13 Transportation for highway projects.

14 3. Having a single state agency — the Colorado Water Conservation Board — evaluate and
15 obtain financing for water projects may accelerate the construction of projects. The board brings
16 expertise in water policy and experience from across the state on water issues. Its geographically
17 diverse membership allows it to consider the interests of small and large communities, the state's
18 different regions, and the state as a whole. In addition, the board is currently conducting a statewide
19 water supply study with the assistance of local communities to identify water needs and projects in
20 each river basin. Some of these projects may eventually qualify for money borrowed under this
21 proposal.

22 **Arguments Against**

23 1. This program grants too much authority to the board and leaves questions unanswered.
24 Within the \$4 billion repayment limit, there is no limit on interest rates, total interest paid,
25 administrative costs, or the length of time to repay or issue bonds. The program does not identify
26 specific projects to be funded or require public input on the selection of projects. Because it has no
27 experience in issuing bonds, the board may not have the expertise to obtain the best financing. Also,
28 if the water projects do not produce enough money to repay the bonds, state policymakers may feel
29 obligated to repay the bondholders. In addition, the deadlines in the program may result in the board
30 recommending projects that are neither desirable nor ready for funding. Having a single elected state
31 official select projects for funding may further politicize decisions that have historically been made
32 at the local level or by private entities.

33 2. Another financing tool is not necessary to address Colorado's water needs. Cities and
34 other water users can already borrow money for water projects. They also may obtain financing
35 through the Colorado Water Resources and Power Development Authority or loans and grants from
36 the Colorado Water Conservation Board. Financially viable private entities can borrow money on
37 their own, without state assistance. Environmental, recreational, and agricultural interests may
38 benefit less from this program than other water users because they typically cannot generate sufficient
39 revenue to pay the cost of water projects. In addition, this program does not change environmental

1 or other permitting requirements, which have been some of the greatest obstacles to building major
2 water projects.

3 3. Water projects can negatively impact the environment and local communities. For
4 example, some water projects can flood scenic areas and damage wildlife habitat by changing water
5 temperatures and eliminating or greatly reducing stream flows. Others can increase water treatment
6 costs and limit future economic development opportunities for communities that lose water because
7 of water projects. The board is not required to repair or pay for any damage to an area's environment
8 or economy, or to consider cheaper and quicker water supply alternatives such as increasing
9 residential efficiency or obtaining temporary water transfers from farms during dry years.

10 **Estimate of Fiscal Impact**

11 This program will not affect state revenues. However, it is expected to increase state and
12 local government spending. The Colorado Water Conservation Board will incur costs of \$20,000
13 in budget year 2003-04 to pay for writing rules to administer the water bonding program. Beginning
14 July 1, 2004, the board is expected to incur annual costs of up to \$115,000 to evaluate projects and
15 develop recommendations for the Governor, to issue bonds, and to oversee the design and
16 construction of projects. The board could incur additional costs depending upon the number and
17 complexity of projects the board reviews.

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

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