

## Referendum A Revenue Bonds for Water Projects

### The ballot question:

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

### Background

*Why is this proposal on the ballot?* This year a state law was passed that establishes a process for the Colorado Water Conservation Board, a state agency, to borrow money for water projects. The Colorado Constitution, however, requires voter approval before the state may borrow money and to exempt money from state spending limits. For this reason, the state legislature is submitting to the voters the question of whether to borrow money for water projects and exempt the money from state spending limits. If the proposal is not approved, the state law is repealed.

*Borrowing limits and liabilities.* The proposal allows the Colorado Water Conservation Board to borrow up to \$2 billion by issuing revenue bonds for one or more water projects. The total principal and interest payments cannot exceed \$4 billion. The borrowed money must be repaid from revenue received from the projects. However, in the event of a default, there is no prohibition against the state repaying the debt. Of the \$2 billion total, at least \$100 million must be set aside to improve existing water facilities or to pay for water conservation measures.

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

*How would projects be approved?* Public entities such as cities, water districts, or state agencies; private entities; or combinations of the two may propose water projects to the Colorado Water Conservation Board. The board must evaluate requests for funding and may recommend projects to the Governor for final approval. If the board makes recommendations, it must recommend at least two projects from different river basins with a start date of 2005, at least one of which must be approved by the Governor. Upon approval of a project by the Governor, the board may borrow money by issuing bonds.

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

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

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

***Water supply alternatives.*** Water users may obtain new water from several sources. These sources include pumping water from underground, purchasing or leasing water from farms and ranches, which use 85 percent of Colorado's water, or drawing water from western rivers, which hold most of the state's available river water. In addition, water users can extend existing supplies through reuse, restrictions on water use, or by encouraging conservation through drought-tolerant landscaping, water-efficient appliances and equipment, and increased water rates. The availability of these water supply alternatives depends on the location of the water user and the cost of obtaining the water.

### **Arguments For**

1) A new option for financing water projects may help provide additional water for Colorado's residents, protect against future droughts, and meet the increasing demand for recreational and environmental water uses. Water usage during the recent drought depleted many reservoirs, resulting in restrictions on lawn watering, fee increases, and financial hardship for people who depend on water for their livelihood. Additional water storage might lessen these impacts in the future. Moreover, in most years, Colorado does not have enough storage to hold all the water it is allowed by interstate law to use. Storing water that is currently lost to

downstream states provides an alternative to pumping ground water or buying water from farms or ranches.

2) This program provides an opportunity for water users to work together on projects that benefit a number of users, but that may be too costly for individual users to build. For example, a single project could provide water for a city, recreation, and farms, and generate money to compensate an area that loses water because of the project. This program also could lead to public-private partnerships, where the skills and money of each sector can be combined to solve shared water supply problems. At the same time, the program does not dictate specific water projects, require participation, or eliminate government permitting requirements.

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

### **Arguments Against**

1) This could be the largest debt in state history. This debt authorization lasts until the Colorado Water Conservation Board issues the entire \$2,000,000,000 and is repaid. With no time limit set in the measure, Coloradans could be paying this debt back for generations. The program does not identify specific projects to be funded or require public input on the selection of projects. This program grants too much authority to the board and leaves questions unanswered. Within the \$4 billion repayment limit, there is no limit on interest rates, total interest paid, administrative costs, or the length of time to repay or issue bonds. Because it has no experience in issuing bonds, the board may not have the expertise to obtain the best financing. Customers of water projects funded by this proposal may see their rates increased. Also, if the water projects do not produce enough money to repay the bonds, state policymakers may feel obligated to repay the bondholders. In addition, the deadlines in the program may result in the board recommending projects that are neither desirable nor ready for funding. Having a single elected state official select projects for funding may further politicize decisions that have historically been made at the local level.

2) Another financing tool is not necessary to address Colorado's water needs. No feasible water project has ever failed for a lack of financing. Cities and other water users can already borrow money for water projects. They also may obtain financing through the Colorado Water Resources and Power Development Authority or loans and grants from the Colorado Water Conservation Board. The state government should not make loans that benefit private corporations, or for water projects that may not earn enough revenue to repay the debt. Private lenders will finance prudent proposals, without the risk of a bailout by taxpayers for failed projects. Environmental, recreational, and agricultural water users are less likely to benefit from

this program because their water uses typically cannot generate sufficient revenue to pay the full cost of water projects. In addition, this program does not change environmental, permitting, or other legal requirements, which have been some of the greatest obstacles to building major water projects.

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

### **Estimate of Fiscal Impact**

This program will not affect state revenues. However, it is expected to increase state and local government spending. The Colorado Water Conservation Board will incur costs of \$20,000 in budget year 2003-04 to pay for writing rules to administer the water bonding program. Beginning July 1, 2004, the board is expected to incur annual costs of up to \$115,000 to evaluate projects and develop recommendations for the Governor, to issue bonds, and to oversee the design and construction of projects. The board could incur additional costs depending upon the number and complexity of projects the board reviews. There is no prohibition of a taxpayer-funded state assumption of debt if projects fail.

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

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

### **State Fiscal Year Spending and Bonded Debt**

The state constitution requires that the following fiscal information be provided when a bonded debt question is on the ballot:

1. the estimated or actual state fiscal year spending for the current year and each of the past four years with the overall percentage and dollar change;
2. the principal amount and maximum annual and total state repayment cost of proposed bonded debt; and
3. the principal balance of current state bonded debt with the maximum annual and remaining total repayment cost.

Table 1 provides state fiscal year spending. The remaining paragraphs provide information regarding the proposed and current bonded debt.

<b>Table 1. State Fiscal Year Spending</b>	
<b>Fiscal Year</b>	<b>Spending</b>
1999-00	\$7,563,710,016
2000-01	7,948,550,157
2001-02	7,741,638,224
2002-03 Preliminary	7,680,317,509
2003-04 Estimated	8,093,503,261
Five Year \$ Change	\$529,793,245
Five Year % Change	7.01%

The principal amount and maximum annual state repayment cost of the proposed bonded debt cannot be determined because these amounts depend upon the number and costs of water projects to be funded, and the interest rate and term of the bonds issued. The maximum principal amount is \$2.0 billion and the maximum repayment cost is \$4.0 billion.

The principal balance of state bonded debt as of June 30, 2002, was approximately \$1,233,833,093. The remaining total repayment cost of this bonded debt is approximately \$1,870,132,440.