

California Water Issues Facing Agriculture in 2018 and Beyond

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Overview

- ▣ Surface water deliveries from Delta likely to remain constrained
- ▣ SGMA implementation looming
- ▣ Storage capacity improvements largely limited to groundwater recharge and banking and one or two surface storage projects
- ▣ San Joaquin Valley is over-drafting at 1.5 to 2.0 MAF/year
- ▣ Subsidence is impacting infrastructure – e.g., Friant-Kern Canal, Red Top area in western Madera County, possibly California Aqueduct
- ▣ Drinking Water Quality for DACs is a high priority issue

Status of SGMA Implementation

- ▣ GSAs mostly in place; GSP development underway
- ▣ Deadline for GSP adoption is January 2020 for most subbasins in the San Joaquin Valley
- ▣ Models for GSPs being considered, but few actually fully developed (soft path vs. pumping limits vs. ?)
- ▣ How to expand water supplies and/or reduce demand
- ▣ Technical studies underway
- ▣ Funding mechanisms being considered/developed
- ▣ Workshops and landowner meetings beginning and will intensify
- ▣ No major lawsuits - yet

Water Sales

- ▣ Spot market sales will continue (although not many in 2017)
- ▣ Very few long-term sales in recent years
- ▣ Pendency of SGMA has sellers of long-term sales thinking
- ▣ Banking projects may be most common source of water sold
- ▣ Inter-basin and inter-subbasin groundwater sales likely to shrink

Expanding Water Supply

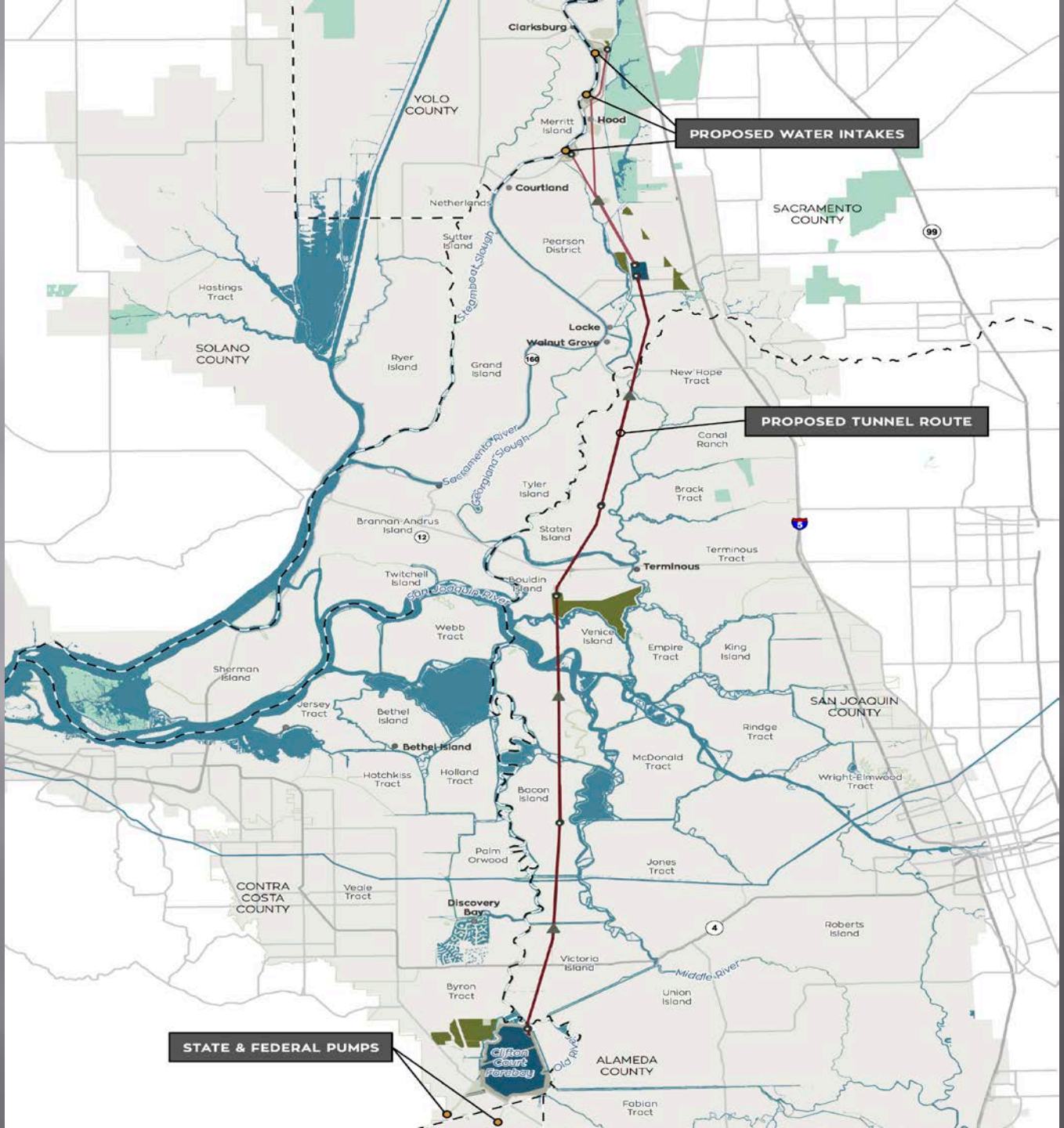
- ▣ Management of Surplus Flows – not flood management but recharge source
- ▣ Water banks
- ▣ Additional surface storage
 - Proposition 1 – Water Storage Investment Program (CWC)
 - Public and Private Projects
- ▣ Conveyance
 - WaterFix
 - Friant Kern Canal
 - East/West interconnection

Water Storage Investment

- ▣ Proposition 1 – 2014 - \$2.7 Billion
- ▣ Funding for Public Benefits that improve the operation of the state water system, are cost effective and provide net improvement to ecosystem and water quality 79750(b)
- ▣ Projects shall be selected by the Water Commission through a competitive public process that ranks potential projects based on the expected return for public investment as measured by the public benefits provided

Storage proposals

- ▣ 12 proposals – 11 accepted as qualifying
 - Temperance Flat; Sites Reservoir; Las Vaqueros Expansion (CALFED)
 - San Diego; Centennial; Pacheco (Regional/local surface storage)
 - Chino Basin, Kern Fan, Sacramento Regional Sanitation; Semitropic; Willow Springs (conjunctive use)



PROPOSED WATER INTAKES

PROPOSED TUNNEL ROUTE

STATE & FEDERAL PUMPS

WaterFix

- ▣ 1 Tunnel or 2?
- ▣ Should Project be Downsized? Or Phased?
- ▣ DWR is seeking approval for 2 Tunnels – Phased
- ▣ Impact on Permitting process
- ▣ Cost
 - Total Project Cost – \$16-17 Billion
 - 1ST Tunnel - \$10.7 Billion
 - Pledged from Water Agencies - \$6-6.5 Billion

WaterFix – Who Pays?

- ▣ Traditional Sharing of Joint Use Facilities – 55% STATE/45% FED

- ▣ Federal option – exclude refuges, north of delta contractors, Friant (?)
 - Federal Cost-share falls squarely on exporters – westside Ag
 - Cost = \$600-\$900 / AF

- ▣ No operational Certainty
 - How to address ESA? Water Quality?
 - Without certainty, commitment to cost is too great. . . .

Timeline

- ▣ Sustainable Use of Groundwater by 2040/2042
- ▣ Surface Storage – 2035-2045
- ▣ Groundwater Storage – 2020-2025
- ▣ WaterFix – 17+ years from Permits/ Approvals – 2035-2040

What Does the Future Look Like?

- ▣ Increased need to understand and strategically manage water resources
- ▣ Expanded market-based approach for allocating water
- ▣ Water costs likely to rise
- ▣ Private investment in projects historically funded by agencies
- ▣ Land fallowing
- ▣ Further adjustment in land values based on water-related factors
- ▣ Ultimately, more stability, but probably after significant dislocation

Understanding Impacts on Land Values and Rents

- ▣ A new challenge for appraisers, lenders and investors
- ▣ Can no longer assume away water issues; too risky to make assumptions, and potentially a violation of professional obligations
- ▣ Engagement of new experts (consultants, engineers and hydrologists) likely required in many instances
- ▣ Heightened need for due diligence – but who pays?
- ▣ Increased engagement with GSAs, DWR and others

Questions?