

VIEWPOINT - Desalination: Let's do lunch Stephen Overturf

A fundamental concept in economics is that of "opportunity cost," or what you have to give up to get something else. The idea itself is quite simple, aptly summarized in the phrase, "There is no such thing as a free lunch."

When applied to desalination in Cambria, this concept would encourage citizens to ask how much will it cost, and who is going to pay for it? Now that Col. Magness of the Army Corps of Engineers has outlined a stunningly aggressive schedule for implementation, the board should consider before long the friendly suggestion to answer both of these questions. *"I hear that Taillevent in Paris has a wonderful lunch, but I think it's pretty expensive."* Those in favor of, opposed to, or even just vaguely neutral to desalination will all wish to know how much it will cost, and the board president — to his credit—has suggested that accurate cost figures will be forthcoming. This is helpful, since (1) there is some concern that the \$1,230 per acre-foot figure based on adjustment to the old Kennedy-Jenks report is too low, (2) a full financial analysis of the project that was envisaged in the original Water Master Plan was never commissioned, and (3) there has been unfortunate confusion created in trying to compare the marginal (added) cost of desalinated water with the average cost of our existing water supply.

"Do you know what this 'prix fixe' on the menu actually means?"

The question of who will pay also needs to be addressed clearly and publicly, and soon, so all parties involved are made aware of— and are comfortable with— where they stand financially. For many people in town, desalination looms first and foremost as an economic issue — that is, how might it affect their personal finances in the future. One cost is clear: that present and future ratepayers will pay the ongoing operating and maintenance expenses for the prospective plant. These costs are, of course, devilishly difficult to predict, but a recent report identifies a present value accounting of at least \$5 million over 30 years—presumably to be paid, since they are additive, from future rate increases.

"Hey, those coquilles Saint-Jacques were terrific. Do you remember what the next course is?" What are called the capital —basically, full construction —costs, according to the agreement with the Army Corps, will be shared, with a *minimum* of 25 percent being Cambria's share. Any costs not reimbursed by the federal government will be borne by our community— a fact that at present needs to be viewed as an unfunded liability.

Take an example, one that could be called a most reasonable scenario. Since a recent estimate is about \$16 million for the plant (not including a solar energy facility which might serve to reduce operating expenses), and our lobbyist in Washington deems the chance for any further government funding to be quite uncertain, the district's share would be \$6 million. Even if the army corps grants the district credit for prior monies spent on the project —roughly \$3 million—the district will be liable for \$3 million. If further government funding is added, that would, of course, help, but the district will still be responsible for 25 percent over \$10.3 million.

"Wow. The pintade farci aux fois gras was unbelievable."

The question is, given the continuing shortfall in district revenues, large potential outlays for significant deferred maintenance as well as contracted salaries and benefits—coupled with a scant reserve base of only around \$4 million—what is the plan to raise such sums? Additional rate increases, bonded borrowing—also with attendant rate increases —or a special assessment district on water-wait-list lot owners? All face serious obstacles. (One board member has even suggested opening up 250 or more lots on the wait list for rapid development, presumably coupled with large connection fees.)

And yet, the problem could be much worse than the above scenario outlines, as the actual costs of construction could be higher, and even credit for prior expenditures may not be approved. Still, the Corps makes it quite clear that, "Without change, CCSD will be responsible for any project cost above \$10.3 million," with implications for rather more alarming figures than those above.

The present board has, as it had promised, proved itself admirably capable in attempting to cope with the perilous fiscal position the district faces. A positive next step—one that would certainly instill trust and help to bring the community together— would be to make their thinking known on the entire opportunity cost of desalination.

"What a wonderful lunch! Oh dear, here comes the waiter with the check."

Cambria resident Stephen Overturf is an emeritus professor of economics.