

May 17, 2015

# Governor's May Revision: 2015-16 Drought Package

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LEGISLATIVE ANALYST'S OFFICE





## Governor Proposes \$2.2 Billion for Drought-Related Activities

### Governor's May Revision Drought Package

(In Millions)

Department	Purpose	Amount	Fund Source
<b>Water Conservation</b>			
DWR	Urban water conservation	\$56	Proposition 1
DWR	Agricultural water conservation	42	Proposition 1
CDFA	Agricultural energy and water reduction projects	40	Cap-and-trade
CEC	Water efficient appliance rebates	30	Cap-and-trade
CEC	Water and energy technology program	30	Cap-and-trade
DWR	Water energy grant programs	20	Cap-and-trade
DGS	Water conservation in state buildings	15	GF/SF
CDCR	Energy efficiency projects at prisons	8	Cap-and-trade
DWR	Save Our Water campaign	4	GF
	Subtotal, Water Conservation	(\$245)	
<b>Other Proposition 1 Infrastructure and Planning</b>			
SWRCB	Groundwater cleanup projects	\$784	Proposition 1
SWRCB	Water recycling	475	Proposition 1
SWRCB	Drinking water for disadvantaged communities	180	Proposition 1
SWRCB	Wastewater treatment	160	Proposition 1
SWRCB	Stormwater projects	100	Proposition 1
DWR	Groundwater sustainability grants	60	Proposition 1
DWR	Desalination grants	50	Proposition 1
	Subtotal, Other Proposition 1	(\$1,809)	
<b>Emergency Drought Response</b>			
CalFire	Enhance fire protection	\$62	GF/SF
OES	Drinking water delivery	22	GF
DWR	Removal of emergency rock barriers	22	GF
CSD	General assistance to migrant farm workers	8	GF
HCD	Move households without potable water	6	GF
SWRCB	Implement executive order	1	GF
	Subtotal, Emergency Drought Response	(\$121)	
	<b>Total</b>	<b>\$2,175</b>	

DWR = Department of Water Resources; CDFA = California Department of Food and Agriculture; CEC = California Energy Commission; DGS = Department of General Services; GF = General Fund; SF = special fund; CDCR = California Department of Corrections and Rehabilitation; SWRCB = State Water Resources Control Board; CalFire = California Department of Forestry and Fire Protection; OES = Office of Emergency Services; CSD = Community Services and Development; and HCD = Housing and Community Development.



## **Governor Proposes \$2.2 Billion for Drought-Related Activities** *(Continued)*

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- The May Revision includes \$2.2 billion for drought and other water-related activities, including urban and agricultural water conservation, cleanup of groundwater contamination, water supply projects, and various emergency drought response actions.
  
- The vast majority of this total reflects new proposals. However, \$112 million of this funding was included in the Governor's January budget proposal, including \$62 million for enhanced fire protection and \$50 million for various programs authorized by Proposition 1.



## Package Includes Some New Activities

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The May Revision drought package primarily funds expansions or extensions of existing drought-related programs approved by the Legislature, as well as includes programs proposed by the administration in the January budget. However, the package includes the following new programs:

- State Water Resources Control Board (SWRCB)—Groundwater Cleanup Projects (\$784 Million).*** The May Revision includes funding for competitive grants and loans for projects to prevent or clean up groundwater that serves as a source of drinking water.
- SWRCB—Stormwater Projects (\$100 Million).*** The May Revision includes funding for multi-benefit stormwater projects, such as stormwater capture projects and treatment facilities.
- California Energy Commission—Water Efficiency Rebates and Technology Programs (\$60 Million).*** The May Revision includes \$30 million to provide rebates for water efficient appliances and fixtures. It also includes \$30 million for a research and development program intended to promote water and energy saving technologies.
- Department of General Services (DGS)—Water Conservation in State Buildings (\$15 Million).*** The May Revision includes \$10 million to fund water efficiency and conservation projects in state-owned facilities not managed by DGS. It also expands on previous efforts by including \$5.4 million in Service Revolving Fund authority to implement additional water conservation projects in DGS-managed buildings.



## Package Includes Some New Activities

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- Housing and Community Development (HCD)—Move Households Without Potable Water (\$6 Million)***. The HCD requests \$2.2 million for seven positions and contract services, as well as \$3.8 million in relocation assistance funding to assist renter households that no longer have drinking water due to drought.
  
- SWRCB—Implementing the Governor’s Executive Order (\$1.4 Million)***. The May Revision includes eight positions and contract funding to (1) implement the enforcement provisions of the Governor’s Drought Executive Order, (2) increase water rights data collection and water use reporting, and (3) develop and implement water conservation regulations.



## Package Relies on Mix of Fund Sources, Mostly Proposition 1

<b>May Revision Drought Package By Fund Source</b>	
<i>(In Millions)</i>	
<b>Fund Source</b>	<b>Amount</b>
General Fund	\$133
Proposition 1	1,907
Cap-and-trade	128
Other special funds	8
<b>Total</b>	<b>\$2,175</b>

- Almost 90 percent of the drought package is for projects supported by Proposition 1, the water bond approved by voters in November 2014. In accordance with the requirements of the proposition, these funds will primarily be used for long-term infrastructure projects.
- The package includes \$133 million from the General Fund. Almost half of this amount is for fire protection activities.
- The package includes \$128 million from cap-and-trade auction revenues, primarily for rebates and other projects designed to achieve both water and energy savings.



## Includes Major Expansion of Water Bond Programs

### Governor's January and May Proposition 1 Proposals for 2015-16

(Dollars in Millions)

Purpose	Implementing Departments	Bond Allocation	Proposed in 2015-16	
			Amount <sup>a</sup>	Percent of Total Allocation
<b>Water Storage</b>		\$2,700	\$3	—
Water storage projects	CWC <sup>b</sup>	2,700	3	—
<b>Watershed Protection and Restoration</b>		\$1,495	\$178	12%
Various state obligations and agreements	CNRA	475	—	—
Watershed restoration benefiting state and Delta	DFW	373	37	10
Conservancy restoration projects	Conservancies	328	84	25
Enhanced stream flows	WCB	200	39	19
Los Angeles River restoration	Conservancies	100	19	19
Urban watersheds	CNRA	20	—	—
<b>Groundwater Sustainability</b>		\$900	\$844	94%
Groundwater cleanup projects	SWRCB	800	784	98
Groundwater sustainability plans and projects	DWR	100	60	60
<b>Regional Water Security</b>		\$810	\$231	29%
Integrated Regional Water Management	DWR	510	33	6
Stormwater projects	SWRCB	200	101	50
Urban/agriculture conservation	DWR	100	98	98
<b>Water Recycling and Desalination</b>		\$725	\$657	91%
Water recycling	SWRCB	725	607	91
Desalination	DWR		50	
<b>Drinking Water Quality</b>		\$520	\$475	91%
Drinking water for disadvantaged communities	SWRCB	260	249	96
Wastewater treatment	SWRCB	260	226	87
<b>Flood Protection</b>		\$395	—	—
Delta flood protection	DWR and CVFPB	295	—	—
Statewide flood protection	DWR and CVFPB	100	—	—
<b>Administration and Oversight</b>		—	\$1	N/A
Administration	DWR and CNRA	—	1	N/A
<b>Totals</b>		<b>\$7,545</b>	<b>\$2,389</b>	<b>32%</b>

<sup>a</sup> \$267 million included in Chapter 1, Statutes of 2015 (AB 91, Committee on Budget).

<sup>b</sup> With staff support from DWR.

CWC = California Water Commission; CNRA = California Natural Resources Agency; DFW = California Department of Fish and Wildlife; WCB = Wildlife Conservation Board; SWRCB = State Water Resources Control Board; DWR = California Department of Water Resources; and CVFPB = Central Valley Flood Protection Board.



## Includes Major Expansion of Water Bond Programs

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- Appropriates Large Share of Bond Funds.*** Under the May Revision, the Governor proposes to appropriate almost one-third of all Proposition 1 funds in the first year, including the continuously appropriated water storage allocation. (The May Revision would also appropriate almost half of the non-continuously appropriated Proposition 1 funds.) The January budget proposed allocating only 7 percent of the total funds available.
  
- Appropriates Nearly All of Some Allocations.*** The Governor's January and May proposals would allocate more than 95 percent of the allocations available for groundwater cleanup, urban and agricultural conservation, and drinking water for disadvantaged communities.
  
- Requests Multiple Years to Expend Funds.*** The Governor proposes budget bill language allowing departments three years to commit funds and two or three additional years to spend them.





## LAO Comments

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### **Consider Consistency of Proposals With Legislative Priorities**

- In many cases, the administration has justified its proposals, in part, by explaining that they are consistent with the administration's Water Action Plan or the Governor's Drought Emergency Order. The documents, however, reflect the administration's priorities. The Legislature should ensure that funding is directed towards its priorities.
- For example, a large majority of the proposed funding is directed towards implementing infrastructure, cleanup, efficiency, and technology projects that may have long-term benefits but less impact on alleviating the impacts of the current drought on Californians. The Legislature may want to consider whether the proposed package includes the right balance of near-term and longer-term efforts.



### **Proposals Vary in Level of Detail Regarding Expected Outcomes**

- The administration is proposing over \$2 billion in new spending. The Legislature should be provided with information regarding the expected benefits that will be achieved from these expenditures, such as projected water savings, constituents served, or projects funded. Having these projections available at the time of appropriation better enables the Legislature to hold departments accountable in the future for their performance. Despite its importance, however, the May Revision budget proposals often provide little detail about expected outcomes.
- For example, the administration has provided no water savings estimates associated with water conservation projects at prisons or non-DGS managed state buildings. Similarly, the Water Board and the Department of Water Resources Proposition 1 proposals do not provide projected outcomes for their projects.



## LAO Comments

(Continued)

- **LAO Recommendation.** We recommend that the Legislature ask each department to report at budget hearings on the following: (1) the outcomes it expects to achieve with the additional funds, (2) how it plans to measure outcomes and benefits, and (3) how it plans to evaluate whether or not the program is successful.



### Focus on Funding Cost-Effective Proposition 1 Projects

- Consistent with our recommendations in our February 2015 report *The 2015-16 Budget: Effectively Implementing the 2014 Water Bond*, the Legislature will want to ensure that bond funds go to cost-effective projects, in particular those that (1) provide state-level public benefits, (2) generate more benefits than otherwise would otherwise occur, and (3) have longer-term lifespans.
- In so doing, the Legislature may want to inquire how new Proposition 1 programs proposed for funding will achieve these objectives. For example, the Legislature could explore whether actions are necessary to ensure that water efficiency programs (such as rebate programs and turf) do not displace utility funds. Additionally, the Legislature may wish to ensure that groundwater cleanup funding does not go to projects if there is an existing responsible party that can pay for cleanup.



### Accelerated Proposition 1 Funding Represents Important Trade-Off

- Accelerating appropriations could result in the selection of projects and spending of some funding somewhat sooner than would otherwise occur if, for example, departments are able to make awards sooner than the next budget cycle. In these cases, some projects might be implemented months, or even more than a year, sooner than would otherwise occur.



## LAO Comments

(Continued)

- However, providing so much of this funding in a single appropriation will also reduce opportunities for the Legislature to exercise its oversight responsibilities through the annual budget process. In some cases, it is unclear whether this trade-off is worthwhile considering that departments do not expect to award all funds in the budget year. For example, \$784 million is provided for the SWRCB's new groundwater cleanup program. However, the department has indicated that there is significant work that must be done to develop that program, and thus it appears unlikely that they will be able to utilize the majority of these funds in the budget year.
- **LAO Recommendation.** We recommend that the Legislature direct the departments to identify how much funding they expect to award in 2015-16 and appropriate an amount of funding consistent with these projections, including necessary administrative costs.



### Some Departments Might Face Administrative Challenges That Slow Expenditures

- There are reasons to be concerned about departments' abilities to expend drought funding in the time frames envisioned. Of the more than \$800 million provided for drought activities in 2013-14 and 2014-15, just over half has been spent or committed to projects as of May 2015. In some cases, these departments are proposed to receive large increases in funding in the May Revision.



## LAO Comments

(Continued)

- For example, the Office of Emergency Services has only spent about half of its \$4 million planned expenditures for drought response activities, yet it is requesting an additional \$22 million in 2015-16. These past challenges could be exacerbated for some departments that are being asked to administer multiple, large, or new programs. This is because it takes time to develop funding guidelines for new programs, and administering multiple, large programs can tax an agency's administrative capacity.
- **LAO Recommendation.** We recommend approval of supplemental report language requiring the Department of Finance to provide to the budget committees a report identifying the amount of encumbrances and expenditures for each drought program funded in 2015-16, as well as prior years. This report should be provided with the Governor's January budget proposal for 2016-17.



### Ensuring Efficient Administration of Programs

- In several cases, multiple departments are administering similar programs, such as urban and agricultural water efficiency projects. The Legislature may want to ask departments in budget hearings about the differences in the programs to ensure that the proposals will not result in unnecessary duplication of effort.
- In addition, the Legislature may want to ask departments about the amount of resources that will be dedicated to administering drought programs. For example, HCD proposes to spend about 35 percent of its funding on administration. A similar program currently being administered by local contractors, the Drought Housing Rental Subsidies program, limits administration cost to 10 percent of program funding.



## LAO Comments

*(Continued)*

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### **Alternative Funding Sources to General Fund Could Be Available**

- In some cases, there may be other sources of funding that could be used instead of General Fund for certain projects, which could free up General Fund dollars for other legislative priorities.
- For example, DGS is requesting a total of \$15.4 million in General Fund and Service Revolving Fund (which is mostly generated from the General Fund) for water conservation projects in state buildings. It may be appropriate to use cap-and-trade revenue or Proposition 1 funds to fund these activities, similar to how these funds are being used for other programs in the drought package.