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Governor's Proposed Delta Actions: LAO's Initial Fiscal Assessment

LEGISLATIVE ANALYST'S OFFICE

Presented to:

Senate Committee on Natural Resources and Water

Hon. Darrell Steinberg, Chair





Overview of LAO's Presentation

Specifically we will address:

- ☑ ***Financing Mechanisms.*** Traditional funding mechanisms for financing Delta-related projects, including infrastructure.
- ☑ ***Governor's Proposed Funding Models.*** Funding models proposed by the Governor in the budget for water supply and Delta-related infrastructure.
- ☑ ***Estimated Cost of the Proposals.*** This includes the administration's current estimation of cost, where available. Given the time required, we have not conducted an independent analysis of each cost estimate.
- ☑ ***Related Expenditures Proposed in the Budget.*** For each proposed action, we provide the committee with budget-year change proposals relevant to the proposed action. Accordingly, there may be baseline funding relevant to the proposed action in addition to these budget change proposals.
- ☑ ***Bond Fund Availability.*** We provide the committee with existing bond funds that remain broadly available for the proposed program purpose. In many cases, guidelines or other restrictions on funding might reduce the amount estimated as being available.



Overarching Issues— Governor's Delta Proposal



New Programs Versus Expediting Existing Programs?

- Most of the activities in the Governor's Delta proposal are being addressed in some way by current programs or programs proposed in the Governor's budget. In most cases, the Governor's proposal seeks to expedite results from these existing programs. In a very few cases, the proposal would require wholly new programs or activities which we highlight.



Choice of Financing Mechanism for Infrastructure

- Two Key Issues Are:
 - **Basic Financial Approach.** The basic financial approach to use may include pay-as-you-go, bond financing, or a mixed approach.
 - **Source of Funding.** The source of funds to ultimately pay for the acquisition or use of facilities, regardless of the financial approach used. Regarding sources of funding to ultimately pay for Delta solutions, including infrastructure, these can include both general and selective taxes, user fees, the sales of other physical assets or income streams, and a variety of other alternatives.



A Case Study—Financing the State Water Project (SWP)

- From 1952 to 2007, funding to build the SWP totaled about \$6.4 billion mainly from revenue bonds and some GO bonds.
- When the bonds are paid off, it is estimated that contractors who receive the water from the SWP will have paid for about 96 percent of the cost of building the project. The remainder is paid by the state, to cover fish and wildlife and recreation enhancements associated with SWP, and the federal government, primarily for flood control benefits.
- About \$530 million is funded by the California Water Fund—funded mainly from project revenues and tideland oil revenues.



Overarching Issues— Governor's Delta Proposal



Governor's Budget Proposes Two Different Models for Financing Water-Related Infrastructure

- ***Surface Storage Feasibility Studies—General Obligation Bond Funding.*** The budget proposes \$9.8 million in bond funds for the Department of Water Resources (DWR), under CALFED, to continue feasibility studies for surface water storage projects.
- ***Alternative Delta Conveyance Feasibility Studies—Beneficiary Pays Funding.*** The Governor proposes \$1.4 million in State Water Project funds (off-budget, user-fee generated), to complete studies on alternative water supply conveyance models in the Delta.



Financing Water Conservation

- ***Local Assistance—Mostly Bond Funding with Local Match.*** Most state funding for water conservation in the past 8 years has come from bond funds. Generally, these are local assistance grant programs requiring a local match or cost share.
- ***Integrated Regional Water Management.*** Recent bonds, including Propositions 50 and 84, have allowed locals to apply to receive grant funding for various water supply and water quality projects under a single program. Eligible projects may include those with a conservation benefit.
- ***Local Contributions Likely Greater than State's.*** While we don't have an estimate for the level of investment statewide for water conservation efforts at this time, local matches and other local direct expenditures likely outpace state funding for water conservation.



Governor's Proposed Delta Actions

1. Reduction of 20 Percent in Per Capita Water Use Statewide by 2020



Proposal. Achieve a 20 percent reduction in per capita water use statewide by 2020. Direct state agencies to expand water conservation programs, and to develop a more aggressive approach.



Current/Prior Level of Investment.

- **Current State Expenditures.** The DWR currently spends about \$5.5 million for water conservation planning and monitoring efforts. Other agencies have programs addressing water conservation in part. For example, the California Energy Commission's energy conservation efforts, such as "Energy Star" ratings, identifies low-water using appliances that also reduce energy usage. We do not have an estimate across all departments for these broadly water conservation efforts.
- **Expenditures 2004-2008.** The DWR estimates bond expenditures since 2004 totaling about \$92 million, with a local match of well over \$100 million, broadly for water conservation efforts, including water use efficiency programs.



Governor's Budget Proposal and Available Funding

- **Governor's 2008-09 Budget Proposal.** The Governor proposes expenditures of \$300 million from Proposition 84 from Integrated Regional Water Management funding pots, mostly for local assistance grants (of which water conservation is an eligible use), with the remaining \$508 million to be allocated in 2010-11.



Governor's Proposed Delta Actions (*Continued*)

2. Protection of Floodplain in the Delta. Expedite Evaluation and Protection of Critical Floodplains



Proposal Part One. Develop policy guidance on Delta land use. Require Delta Protection Commission to update the Land Use and Resource Management Plan. Direct the Governor's Office of Planning and Research and the State Architect to develop model Delta land use guidelines.



Current Level of Investment and Governor's Budget Proposal

■ ***Delta Protection Commission.*** The commission plans to expend between \$133,000 and \$233,000 for consulting, environmental compliance, and staffing of the Delta Protection Commission's management plan. Funds are anticipated from the commission's baseline 2008-09 budget as well as contributions from commission members (up to \$80,000). The commission anticipates a 6-month timeline to finish the plan once the 2008-09 budget is enacted.

■ ***Office of Planning and Research and State Architect.*** The agencies do not have existing programs or cost estimates for the proposed activities.



Governor's Proposed Delta Actions (*Continued*)



Proposal Part Two. The DWR to establish recommended standards for Delta levees.



Current/Prior Level of Investment and Available Funding

- **Existing State Recommended Standards.** The state currently has four recommended levee standards (three agricultural, one urban). These are set by both state and federal agencies, including the Federal Emergency Management Agency (FEMA). The department does not have an estimate for development of standards pursuant to the Governor's Delta proposal.
- **Levee-Related Expenditures Prior to Propositions 84 and 1E.** Most funding for levees has been for the capital improvement and maintenance of levees, rather than development of the standards themselves. Projects within the Delta (both federally authorized projects and other projects) are eligible for a state cost-share for maintenance, repair and improvements, mostly through subventions. The department estimates over \$120 million was expended for levees from Propositions 204, 13 and 50.
- **Bond Funds Available.** Proposition 84 includes \$275 million for Delta levees. Levee improvements are also an eligible expense broadly under the Proposition 1E bond (\$3 billion for the State Plan of Flood Control). Through 2007-08, \$57.8 million has been appropriated from Proposition 84 for Delta levees. For 2008-09, the budget proposes \$124 million from Proposition 84 for Delta levees.



Governor's Proposed Delta Actions (*Continued*)

3. Multi-agency Delta Disaster Planning. Create Emergency Plan and Conduct Multi-Agency Disaster Planning Exercise in the Delta (DWR as Lead Agency with Office of Emergency Services)



Proposal. Contract for emergency response equipment and services. Continuation of existing efforts to stockpile emergency equipment and services. Expedite placement of materials and supplies in and near the Delta.



Current Level of Investment

- ***Current-Year Funding.*** About \$2 million (Proposition 84 bond funds) was approved to develop a Delta Emergency Operations Plan in 2007-08. An additional \$10 million (Proposition 1E) is being used to move repair materials into strategic locations in the Delta in the event of a levee failure.



Governor's Budget Proposal and Available Funding

- ***Governor's 2008-09 Budget Proposal.*** The Governor's budget proposes \$54 million from Proposition 84 for "readiness and emergency response," in coordination with the Delta Protection Commission and Office of Emergency Services.
- ***Expediting Activities—Fiscal Consequences.*** The DWR has identified two activities that might expedite Delta disaster planning and preparedness, but it has not come up with a cost estimate for them. These include obtaining land use and environmental permits, and land acquisition (mostly securing right-of-ways) to locate and manage materials. It is unclear how much beyond the \$66 million of previously appropriated and proposed funding is needed for these activities. Proposition 1E funding is available for these activities.



Governor's Proposed Delta Actions (*Continued*)

4. Expedite Interim Delta Actions



Proposal. Expedite the completion of the Bay Delta Conservation Plan (BDCP).



Current/Prior Level of Investment and Anticipated Program Activities

- **Prior-Year Appropriation.** The budget appropriated \$20 million in 2007-08 to the Department of Fish and Game from Proposition 84 bond funds for BDCP development. Approximately \$1.7 million of this appropriation has been spent to date.
- **Expenditures to Date.** About \$3.5 million has been spent to date for the BDCP from all fund sources, including funding from beneficiaries (including State Water Project contractors), federal agencies (including Central Valley Project contractors), energy users, and others participating in this process.
- **Estimated Cost to Complete Plan.** The cost to complete the plan was previously estimated at \$13 million. This estimate does not include a now anticipated scope of the environmental document.
- **Timeline to Complete.** A final BDCP along with necessary environmental documentation is anticipated to be completed by December 2010. Public review drafts of (1) the plan is anticipated mid-year 2009, and (2) of the environmental document is anticipated by December 2009.
- **Expediting the BDCP.** No new estimates of required funds are available, however the Resources Agency anticipates expediting the plan will require initiating the environmental review process and site-specific work in spring 2008.



Governor's Proposed Delta Actions (*Continued*)

5. Delta Water Quality Protection



Proposal. State Water Resources Control Board to develop and implement a comprehensive program in the Delta to protect water quality.



Current and Anticipated Program Activities

- ***Existing Activities.*** The state board is currently developing a Delta work plan which will include estimated activities and expenditures. This work plan will be released in mid-May and considered by the board in June 2008.
- ***Expediting and Reprioritizing Activities.*** The board intends to place additional geographic focus on the Delta using existing programs as the basis for water quality control programs.



Governor's Proposed Delta Actions (*Continued*)

6. Improvements to Delta Water Conveyance



Proposal. Direct DWR to proceed with the environmental analysis on at least four alternatives for Delta conveyance.



Current/Prior Level of Investment

- **CALFED Activities.** The CALFED Bay-Delta Program currently estimates \$94.9 million in state expenditures in 2007-08 for conveyance across multiple departments, programs, and funding sources. To date, CALFED estimates over \$270 million has been spent for conveyance activities (all fund sources, not including local matching funds).



Governor's Budget Proposal

- **Alternative Delta Conveyance Feasibility Studies—Beneficiary Pays Funding.** The Governor proposes \$1.4 million in State Water Project funds (off budget, user-fee generated), to complete studies on alternative water supply conveyance models in the Delta.
- **CALFED Budget Proposal.** The CALFED proposed 2008-09 expenditures for conveyance (excluding the Bay Delta Conservation Plan) are \$31.5 million across multiple program areas.



Governor's Proposed Delta Actions (*Continued*)



Available Funding

- ***Funds Available from Multiple Sources.*** Funds are available for water conveyance from (1) State Water Project funds (off budget) as seen in the Governor's proposal, (2) Integrated Regional Water Management bond funds (both appropriated and as-yet-to-be appropriated), as well as direct local expenditures for water conveyance.
- ***Costs to Expedite Water Conveyance Projects.*** Beyond the Governor's Alternative Delta Conveyance proposal, there are no fiscal estimates available to expedite Delta water conveyance projects. The outcomes of the Delta Vision, Bay Delta Conservation Plan, and Delta Risk Management Strategy processes are anticipated to provide further direction for Delta-related water conveyance development.



Governor's Proposed Delta Actions (*Continued*)

7. Water Storage



Proposal Part One. Complete feasibility studies for CALFED surface storage projects.



Current/Prior Level of Investment

- ***Funding to Date.*** Over \$62 million in state funds has been spent by DWR under the CALFED program on surface water storage studies through June 2007.
- ***Local Funding Far Exceeds State Funds.*** Local agencies, including the Metropolitan Water District as an example, have expended well-over \$2 billion in the past 10 years to develop local water storage facilities.



Governor's Budget Proposal

- ***Proposed 2008-09 Budget.*** The budget proposes \$9.8 million in bond funds for DWR, under CALFED, to continue feasibility studies for surface water storage projects. The DWR estimates \$15.76 million is needed to complete studies.



Available Funding

- ***State Bond Funds Available.*** Funding is available for surface storage planning from Propositions 50 and 84. In addition, water storage (water supply reliability) is an eligible use of the over \$1 billion available for Integrated Regional Water Management from Proposition 84.



Governor's Proposed Delta Actions (*Continued*)



Proposal Part Two. Expedite funding for groundwater storage projects.



Current/Prior Level of Investment

- **Funding to Date.** The state has expended at least \$352 million (mainly Propositions 13 and 50 bond funds) in local assistance for groundwater storage and groundwater recharge, including a proportion (about 40 percent) of funding from Integrated Regional Water Management (IRWM) programs. Of the approximately \$58 million remaining to be allocated for IRWM from previous appropriations, \$23.2 million is estimated to be used for groundwater projects. Additionally, the department plans to award \$6.4 million in the current year for the Local Groundwater Assistance Program (Chapter 708, Statutes of 200 [AB 303, Thomson]) for projects to improve groundwater management.
- **Expediting Groundwater Funding.** The DWR and the State Water Resources Control Board (SWRCB) recently have expedited a second round of IRWM grant funding of about \$150 million. Based on previous allocations, about \$60 million will be used for groundwater projects.
- **Local Funding Exceeds State Funding.** Though we do not have an estimate of local funding, it is likely based on required local matches and a qualitative assessment of local activities that local funding for groundwater management far exceeds state local assistance funds by more than 2 to 1.



Governor's Proposed Delta Actions (*Continued*)



Available Funding

- ***Proposed 2008-09 Budget and Available Funding.*** Funding for groundwater storage projects is proposed through the Integrated Regional Water Management (IRWM) program in the budget year. If past guidelines are used, approximately \$480 million of the \$1.2 billion total available for IRWM over the coming years will address groundwater management in some manner. Additionally, SWRCB expends a limited amount of Proposition 50 bond funds (less than \$10 million annually) for the Groundwater Ambient Monitoring and Assessment Program (GAMA) for statewide analysis and monitoring of groundwater basins (Chapter 522, Statutes of 2001 [AB 599, Liu]).
- ***Opportunity to Target Funding Through IRWM Guidelines.*** The DWR has not yet drafted guidelines for Proposition 84 IRWM local assistance grants. The Legislature may wish to weigh in on prioritizing the use of these funds if it wishes to alter the traditional 40 percent allocated to groundwater programs.