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Major Water-Related Proposals In the Governor's 2015-16 Budget

LEGISLATIVE ANALYST'S OFFICE

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Senate Budget and Fiscal Review Committee
Hon. Mark Leno, Chair





Summary of Administration's Major Water-Related Proposals for 2015-16

(Dollars in Millions)

	Purpose	Amount	Positions	Fund Source
Drought response	Various drought-related activities, such as emergency fire suppression	\$115	454	General Fund and special funds
2014 water bond— Proposition 1	Various water-related activities, such as habitat restoration	533	158	General obligation bonds
2006 flood protection bond— Proposition 1E	Flood control projects and programs	1,123	530	General obligation bonds



Drought Proposals

(Dollars in Millions)

Purpose	Department	2013-14 Actual	2014-15 Actual	2015-16 Proposed
Increased fire suppression and prevention	Forestry and Fire Protection	—	\$66.0	\$61.8
Emergency drinking water supplies	Public Health/SWRCB	\$15.0	—	15.9
Actions to protect fish and wildlife	Fish and Wildlife	2.3	38.8	14.6
Emergency water supply activities and education	Water Resources	1.0	18.1	11.6
Emergency regulations and enforcement	SWRCB	2.5	4.3	6.7
Drought response coordination and guidance	Office of Emergency Services	1.8	4.4	4.4
Food assistance	Social Services	25.3	5.0	— ^a
Grants for local water supply projects	Water Resources	472.5	—	—
Flood control projects	Water Resources	77.0	—	—
Housing assistance	HCD	21.0	—	—
Grants for projects that save water and energy	Water Resources	20.0	—	—
Groundwater cleanup and sustainable management	Water Resources/SWRCB	14.0	9.1	—
Drought response and water efficiency	California Conservation Corps	13.0	—	—
Grants for irrigation improvements to save water and energy	Food and Agriculture	10.0	—	—
SWP water-energy efficiency	Water Resources	10.0	—	—
Training for workers affected by drought	Employment Development	2.0	—	—
Water conservation in state facilities	General Services	—	5.4	—
Totals		\$687.4	\$151.1	\$115.0

^a Does not include a carryover of \$7 million General Fund from prior years to 2015-16.
SWRCB = State Water Resources Control Board; HCD = Housing and Community Development; and SWP = State Water Project.



Recent Expenditures on Drought. The Legislature appropriated a total of \$839 million (mostly bond funds) for various drought-related activities in 2013-14 and 2014-15. As of January 2015, the administration had expended \$234 million (27 percent) of that amount.



Governor's Proposal. The Governor's 2015-16 budget requests \$115 million (\$93.5 million General Fund) in one-time funds across five departments for similar drought-related activities.



LAO Comments on Drought Proposals

- Generally Reasonable Response to Problems Caused By Drought.*** The Governor's proposals generally address significant problems that have arisen during the drought and incorporate some lessons learned from previous drought-related activities.

- Funding Required Will Depend on Future Hydrologic Conditions.*** Water conditions—and therefore resource needs for drought activities—for 2015-16 will be determined by the amount of precipitation that falls in the next few months.

- Responding to Drought as an Emergency Creates Problems.*** Droughts recur periodically in California. However, many state agencies and some local agencies do not have programs and procedures in place to plan for droughts, unlike for other disasters.

- Consider Actions Needed to Improve Resilience to Future Droughts.*** The Legislature may want to consider changes to California's water system that would improve the state's resilience to dry conditions. For example, the Legislature could consider enhancing ongoing monitoring and enforcement of the water rights system so that the state does not have to take emergency actions to rapidly ramp up those efforts during droughts.



2014 Water Bond— Proposition 1 Proposals

(Dollars in Millions)

Purpose	Proposed for 2015-16
Water Storage	\$3
Water storage projects	\$3
Watershed Protection and Restoration	\$178
Conservancy restoration projects	\$84
Enhanced stream flows	39
Watershed restoration benefiting state and Delta	37
Los Angeles River restoration	19
Urban watersheds	<1
Various state obligations and agreements	—
Groundwater Sustainability	\$22
Groundwater sustainability plans and projects	\$22
Groundwater cleanup projects	1
Regional Water Management	\$57
Integrated Regional Water Management	\$33
Water use efficiency	23
Stormwater management	1
Water Recycling and Desalination	\$137
Water recycling and desalination	\$137
Drinking Water Quality	\$136
Drinking water for disadvantaged communities	\$69
Wastewater treatment in small communities	66
Flood Protection	—
Delta flood protection	—
Statewide flood protection	—
Administration and Oversight^a	\$1
Administration	\$1
Total	\$533

^a Bond does not provide specific allocation for bond administration and oversight. It allows the use of other allocations for this purpose.



LAO Comments on Implementing Proposition 1

- ☑ **Key Principles for Implementing Proposition 1.** Three guiding principles to inform how money is allocated to projects in order to promote transparency and ensure better outcomes are to focus on (1) furthering state priorities, (2) funding cost-effective projects, and (3) ensuring accountability and oversight.
- ☑ **LAO Recommendations.** While the Governor's proposals are generally consistent with the intent of the bond, we recommend steps to better ensure that the most cost-effective projects are selected for funding and that sufficient oversight and evaluation is provided. Some of our key recommendations include:

 - **Ensure Funding Targeted to State-Level Public Benefits.** Since bonds will be repaid with state tax revenues, funds should be directed to projects that provide benefits to the state as a whole, not private beneficiaries. We recommend the Legislature specify what portion and type of activities should be considered as providing state-level public benefits.
 - **Require Robust Cost-Effectiveness Criteria for Project Selection.** We recommend that administering departments follow certain practices to evaluate cost-effectiveness, such as requiring grantees to use consistent evaluation methods.
 - **Require Departments to Submit Staffing Plans for All Bond-Related Activities.** Only some of the administration's proposals for positions to support Proposition 1 activities specify whether they took declining workload from other bonds into account when determining how many positions to request.
 - **Facilitate Oversight of Projects, Programs, and Outcomes.** We recommend that the Legislature require departments, prior to finalizing program guidelines, to identify how the data they are collecting will allow the Legislature and the public to hold departments accountable for their outcomes.



2006 Flood Protection Bond— Proposition 1E Proposals

(Dollars in Millions)

Purpose	Amount	Percent of Total
Capital Outlay Projects:	\$738	66%
In urban areas	(320) ^a	(28)
Systemwide	(300)	(27)
In rural areas	(118)	(11)
Local Assistance	222	20
State Operations	163	15
Total	\$1,123	100%

^a Includes \$13.8 million from other bond funds and \$52 million in reimbursement authority.



Background on Proposition 1E. In November 2006, voters passed Proposition 1E, which made \$4.1 billion in general obligation bonds available for flood protection activities. The measure requires all funds to be appropriated by July 1, 2016. The Legislature has appropriated all but \$1.1 billion of this funding, but based on the latest data available, only \$1.9 billion of Proposition 1E funds had been expended or encumbered (committed to projects) as of June 2013. The Department of Water Resources (DWR) estimates that the total need for flood control funding in the Central Valley is between \$14 billion and \$17 billion.



Governor's Proposal. The Governor proposes \$1.1 billion (nearly all from Proposition 1E) for DWR to support various flood control activities. Unlike with prior appropriations, the proposal does not identify specific projects that would be funded. The DWR would have ten years to encumber the funds (commit to projects) and an additional two years to expend them. The department would also be able to transfer funds between state operations, local assistance, and capital outlay projects as it deems necessary.



LAO Comments on Proposition 1E Proposal

- Significantly Reduces Legislative Involvement and Oversight.*** Under the proposal, the administration would be able to direct funding to currently unknown projects and shift funding away from currently planned projects without justification and legislative approval. Compared to current budgeting practice, this would significantly limit the Legislature's ability to direct funding to its priorities and oversee how those funds are spent.

- Establishing Legislative Priorities Is Key Given Large Demand.*** Prioritizing among flood projects inherently involves weighing the reduction in flood risk with various other factors, including (1) how much to rely on local and federal contributions, (2) how quickly projects can be initiated, (3) how to value environmental and other state-level benefits, (4) reducing state financial liabilities related to levee failures, and (5) how much funding should support shorter-term planning activities versus projects.

- Does Not Address Problems That Led to Delay.*** According to DWR, the state has faced challenges to initiating and completing Proposition 1E projects, including (1) securing local and federal cost shares, (2) identifying suitable projects, and (3) securing permits needed to complete projects. While lengthening the appropriation as proposed might allow the state to fully expend the bond funds, it does not fundamentally address the problems that led to the current situation.



Options for Funding Flood Protection Projects

- Legislature Has Several Options.*** The Legislature has various options when considering how to fund flood protection projects. These options balance legislative oversight and impacts to the General Fund in different ways.
- Fund Flood Protection on a Pay-As-You-Go Basis***

 - Funding flood protection projects on a pay-as-you-go basis would entail paying for projects upfront, instead of borrowing. This would allow the Legislature to exercise its traditional project approval and oversight roles through the budget process. While this could increase costs somewhat in the near term—compared to relying on bonds—it would avoid the long-term General Fund costs of paying interest on bonds.
 - Funding sources could include (1) General Fund (same source as debt service payments on bonds) or (2) a new charge on beneficiaries, such as communities that are protected by the levees.
- Modify Governor’s Proposal to Provide Greater Control and Accountability***

 - Legislature could modify the Governor’s proposal to (1) require annual reporting on projects and expenditures, (2) require legislative review of projects prior to encumbering funds, and (3) prohibit transfers to state operations (except levee maintenance). This would provide greater accountability than the Governor’s proposal, but would still be less than under current budget practice.
 - While this option would allow for the use of the remaining Proposition 1E funds, it would be more costly than pay-as-you-go in the long run.



Options for Funding Flood Protection Projects

(Continued)



Combination of Above

- The Legislature could appropriate Proposition 1E funds for specific projects in 2015-16 and 2016-17, prior to the deadline. For 2017-18 and beyond, the Legislature could appropriate funding on a pay-as-you-go basis.
- This would allow the Legislature to fully maintain its traditional oversight role and allow the use of some Proposition 1E funds. It could be more expensive when the state begins relying on pay-as-you-go, but less expensive in the long run.