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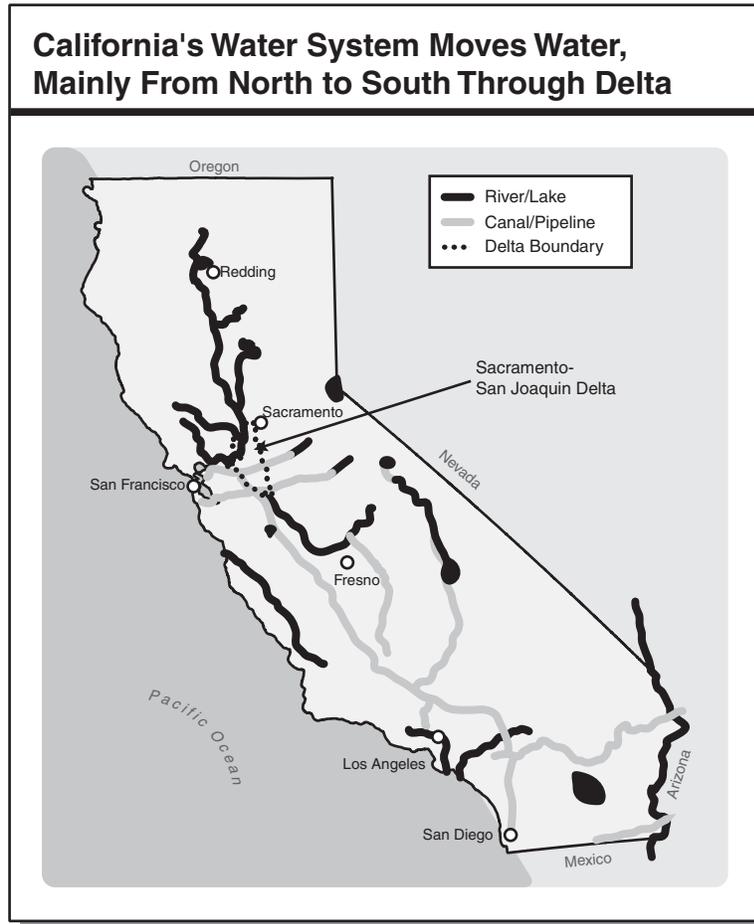
Implementing the 2014 Water Bond

LEGISLATIVE ANALYST'S OFFICE

Presented to:
Assembly Budget Subcommittee No. 3
On Resources and Transportation
Hon. Richard Bloom, Chair



California's Water System



- ☑ Various sources and uses of water are connected to one another in many ways, including connections between Northern and Southern California, upstream and downstream water users, and groundwater and surface water.
- ☑ These interconnections mean that the supply and use of water in one part of the state can affect its availability in other parts of the state.



Overview of the 2014 Water Bond (Proposition 1)

- Total of \$7.5 Billions.** Voters approved Proposition 1 in November 2014. The bond provides \$7.5 billion to fund various water-related projects. Of this total, \$425 million was redirected from unsold bonds previously authorized by voters for resources-related purposes.
- Categories of Projects.** Proposition 1 provides funding for seven categories of projects: water storage (\$2.7 billion), watershed restoration (\$1.5 billion), groundwater sustainability (\$900 million), regional water management (\$810 million), water recycling and desalination (\$725 million), drinking water quality (\$520 million), and flood protection (\$395 million).
- Spending Bond Funds.** Most of the funds will be appropriated by the Legislature, but the water storage funding is continuously appropriated to the California Water Commission. Once appropriated, departments will typically select projects on a competitive basis.
- Oversight and Accountability Provisions.** The measure includes various accountability and oversight provisions, such as to:

 - Allow no more than 5 percent of the bond allocations to be used for administrative costs and an additional 10 percent for planning and monitoring efforts.
 - Require the Department of Finance (DOF) to audit the expenditure of grant funds. Allows for additional auditing in the event that DOF identifies issues of concern.
 - Require the California Natural Resources Agency (CNRA) to annually publish a list of all program and project expenditures on its website.



Governor's Proposal

Proposition 1 Bond Funds—Governor's 2015-16 Proposals

(Dollars in Millions)

Purpose	Implementing Departments	Bond Allocation	Proposed in 2015-16	
			Amount	Percent of Total Allocation
Water Storage		\$2,700	\$3	—
Water storage projects	CWC ^a	2,700	3	—
Watershed Protection and Restoration		\$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	<1	1
Groundwater Sustainability		\$900	\$22	2%
Groundwater cleanup projects	SWRCB	800	1	—
Groundwater sustainability plans and projects	DWR	100	22	22
Regional Water Management		\$810	\$57	7%
Integrated Regional Water Management	DWR	510	33	6
Stormwater management	SWRCB	200	1	—
Water use efficiency	DWR	100	23	23
Water Recycling and Desalination		\$725	\$137	19%
Water recycling and desalination	DWR and SWRCB	725	137	19
Drinking Water Quality		\$520	\$136	26%
Drinking water for disadvantaged communities	SWRCB	260	69	27
Wastewater treatment in small communities	SWRCB	260	66	26
Flood Protection		\$395	—	—
Delta flood protection	DWR and CVFPB	295	—	—
Statewide flood protection	DWR and CVFPB	100	—	—
Administration and Oversight		—	\$1	N/A
Administration ^b	DWR and CNRA	—	1	N/A
Totals		\$7,545	\$533	7%

^a With staff support from DWR.

^b Bond does not provide specific allocation for bond administration and oversight. It allows the use of other allocations for this purpose.
 CWC = California Water Commission; CNRA = California Natural Resources Agency; DFW = Department of Fish and Wildlife;
 WCB = Wildlife Conservation Board; DWR = Department of Water Resources; SWRCB = State Water Resources Control Board; and
 CVFPB = Central Valley Flood Protection Board.



State Conservancies Proposals

Proposition 1 Proposals for Conservancy Restoration Projects			
<i>(Dollars in Millions)</i>			
	Bond Allocation	Proposed in 2015-16	
		Amount	Percent of Total
State Coastal Conservancy	\$101	\$15	15%
Delta Conservancy	50	10	20
Ocean Protection Council	30	10	32
San Gabriel Conservancy	30	10	34
Santa Monica Mountains Conservancy	30	4	14
Sierra Nevada Conservancy	25	10	41
San Diego River Conservancy	17	3	18
California Tahoe Conservancy	15	14	94
Baldwin Hills Conservancy	10	2	21
Coachella Valley Mountains Conservancy	10	3	25
San Joaquin River Conservancy	10	3	28
Totals	\$328	\$84	26%





LAO Principles for Implementing the Bond

- Furthering State Priorities.** Bond funds should further state priorities, including those identified in the bond and other statutes. This will ensure that expenditures are consistent with other state activities.
- Funding Cost-Effective Projects for the State.** Bond funds should be used to provide the greatest amount of public benefits to the state. When spending bond funds, the state should seek to:

 - Provide state-level public benefits—which accrue to the state as a whole—instead of private benefits that accrue to clear beneficiaries who can pay for the projects.
 - Generate more benefits than would otherwise occur. For example, the state generally should not fund projects designed to allow local agencies to meet existing regulations.
 - Fund long-term projects instead of short-term projects or operational costs.
 - Limit administrative costs in order to reserve more funding for projects.
- Ensuring Accountability and Oversight.** Accountability is important to promote transparency and good outcomes. Accountability requires that information on programs be public, accessible, and timely. Departments should collect and evaluate data on project outcomes to allow the Legislature and voters to understand what has been achieved with the investment of the bond dollars.
- Considering Trade-Offs.** There are often trade-offs associated with competing goals that should be considered. For example, sometimes funding the most cost-effective projects can conflict with a desire to spend bond funds quickly or assisting disadvantaged communities.



LAO Recommendations: Promote Cost-Effective Project Selection

- 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 clarify the definition of state-level public benefits for certain categories of benefits, specifically water supply and greenhouse gas reduction benefits.
- Require Robust Cost-Effectiveness Criteria for Project Selection.*** We recommend that the Legislature require administering departments to adopt grant guidelines that include:

 - ***Clear Assumptions About Physical Conditions and Policies.*** Granting departments should be required to establish clear baselines for grant applicants to use when identifying the benefits and costs of their projects. This can ensure (1) easier comparison among project proposals and (2) that project proponents cannot increase the estimated benefits of a project by selecting favorable assumptions.
 - ***Consistent Methods to Evaluate Benefits.*** Each granting department should develop consistent methods that its grant applicants would use when estimating the benefits of their proposed projects.
 - ***Measures of Past Performance.*** Departments should consider grant applicants' performance in completing projects in the past, including how actual benefits and costs of previously funded projects match the proponents' initial estimates. This can create incentives to ensure that grant applicants accurately estimate the benefits and costs of their proposed projects.
- 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.



LAO Recommendations: Oversight and Evaluation During Project Implementation

- Ensure Data Collection to Support Program Evaluation.*** A critical part of ensuring that adequate information is available to measure the success of individual projects, as well as programs as a whole, is to ensure that the best outcome measures are selected and reported. We recommend 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 (1) evaluate the outcomes of projects and programs, (2) compare the reported outcomes of different projects and programs, and (3) hold state departments and grantees accountable for those outcomes.
- Reserve Some Bond Funds for Third-Party Evaluations.*** Third-party experts can provide an outside perspective on the effectiveness of programs and provide additional technical expertise. We recommend that CNRA reserve some bond funding to fund third-party evaluations, focusing on areas of concern or that may be difficult to measure.
- Facilitate Oversight of Projects, Programs, and Outcomes.*** Since the Legislature will not be selecting specific projects for bond funding, legislative oversight over the implementation of Proposition 1 will be important. Oversight can take the form of policy hearings (such as when grant guidelines are proposed) and budget hearings, particularly if departments are requesting reappropriations due to delays completing projects. In addition, we recommend the Legislature require CNRA to:

 - Post additional information online, including current project spending and changes to project timelines.
 - Provide a written report annually with the budget on bond activities, outcomes, and challenges.



LAO Recommendations on Specific Proposals

Summary of Recommendations on Governor’s Proposals

Issue	Governor’s Proposal	LAO Recommendation
Water Storage		
Water storage—DWR	\$3 million and 12 positions for DWR to provide administrative support to CWC for its water storage program.	<ul style="list-style-type: none"> Require CWC to report to the Legislature on how it will determine what are state-level public benefits.
Watershed Restoration and Protection		
Conservancy restoration projects	\$84 million and 13 positions for ten state conservancies and for the Ocean Protection Council to conduct restoration and habitat conservation work. Includes budget bill language (BBL) to allow SDC to transfer funds among purposes.	<ul style="list-style-type: none"> Reject BBL and require the SDC to specify amounts to be spent on state operations versus other purposes. Require CNRA to report at budget hearings on conservancies’ project selection process and guidelines.
Enhanced stream flow—WCB	\$39 million and 4.5 positions for WCB to increase stream flow, such as by purchasing long-term water transfers (at least 20 years) and implementing irrigation efficiency improvements.	<ul style="list-style-type: none"> Ensure that under WCB grant guidelines (1) the state pays a reasonable price for purchasing water, (2) the reductions in water use would be additional to what would have happened otherwise, and (3) WCB’s purchases of water or other activities do not duplicate regulations. Utilize outside technical experts (such as water lawyers) in developing guidelines.
Groundwater Sustainability		
Groundwater sustainability plans and projects—DWR	\$22 million and 5.5 positions for DWR to fund the development of local groundwater sustainability plans and the installation of groundwater monitoring wells.	<ul style="list-style-type: none"> Require funds for developing groundwater management plans only be available to disadvantaged communities.
Regional Water Management		
Water use efficiency—DWR	\$23 million and 9 positions to DWR for agricultural and urban water use efficiency projects.	<ul style="list-style-type: none"> Require use of Water Plan definition of “net water savings” when calculating benefits. Utilize outside technical experts (such as academic researchers) to implement and evaluate water use efficiency projects.
Water Recycling and Desalination		
Water recycling—SWRCB	\$132 million and 7 positions to expand SWRCB’s existing water recycling grant program.	<ul style="list-style-type: none"> Prohibit funding the costs of water recycling projects that are associated with treatment already required. Require SWRCB to report at budget hearings on how new, innovative technologies will be prioritized.
Desalination—DWR	\$6 million and 2 positions for DWR to fund the development of desalination projects.	<ul style="list-style-type: none"> Require DWR to report at budget hearings on how new, innovative technologies will be prioritized.
<p>DWR = Department of Water Resources; CWC = California Water Commission; SDC = San Diego Conservancy; CNRA = California Natural Resources Agency; WCB = Wildlife Conservation Board; and SWRCB = State Water Resources Control Board.</p>		