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L E G I S L A T I V E A N A L Y S T ' S O F F I C E

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Options for Funding Water-Related Activities

Presented to:
Senate Water and Natural Resources Committee
Hon. Fran Pavley, Chair





Existing Funding for Water-Related Activities



Most Water-Related Funding Generated at Local Level

- According to the Public Policy Institute of California, cumulative spending from local sources estimated to be \$25.6 billion between 2008 and 2011, or 84 percent of total statewide water-related spending.
- Typical local sources include (1) fees for water and sewer services, (2) property taxes and assessments, (3) developer fees, (4) other local tax and fee revenues dedicated to water-related activities, and (5) local government general fund.



State and Federal Government Provide Some Funding

- Spending from state sources estimated to be \$3.7 billion (12 percent of total) and \$1.2 billion from federal sources (4 percent of total) between 2008 and 2011. This includes state-level expenditures and local assistance grants from state and federal sources.
- Voters have approved nearly \$27 billion in primarily water-related general obligation bonds between 2000 and 2014. (Bond funding allocations typically lag by several years, so funding from state sources have increased in recent years compared to figure cited above.)



Water-Related Cost Pressures and Funding Challenges



Increasing Costs for Local Water Agencies

- **Aging Infrastructure.** Results in increased repairs and maintenance needs.
- **Higher Regulatory Requirements.** Including Clean Water Act stormwater permits, drinking water standards, and levee conditions.
- **Higher Costs to Obtain Water.** Costs increased by supply limitations including drought, Delta environmental standards, groundwater contamination, and groundwater overdraft.
- **Increasing Demand in Some Regions.** Due to increasing population or shifting from annual to perennial agricultural crops.



Local Funding Constraints

- **Proposition 218 (1996) Requirements.** Higher voter thresholds for approving certain new fees and stricter “cost-of-service” requirements for certain water-related fees.
- **Limited Resources in Lower-Income Communities.** Can be difficult to support ongoing operations and maintenance costs or come up with local “matching funds” for state or federal grants.



State and Federal Funding Constraints

- **Federal Grants and State Bond Funds Are Variable.** Timing can be unpredictable, and typically limited to funding a portion of capital costs rather than ongoing costs.
- **Proposition 26 (2010) Requirements.** Limits state’s ability to impose fees (rather than taxes) to fund certain activities, such as environmental mitigation projects.



Water-Related Cost Pressures and Funding Challenges

(Continued)



Certain Activities Commonly Identified as Particularly Challenging to Fund

- Ecosystem restoration.
- Flood management.
- Safe drinking water in small disadvantaged communities.
- Stormwater management.
- Integrated regionwide projects.



Important Considerations Around Water Funding Options

Determining how to fund various water-related activities can depend on many factors. Key questions in considering the most appropriate funding option (such as state-level funds, locally generated revenues, or a mix of funding sources) include:



Problem and Activities

- What is the cause of the problem to be addressed? Who are the responsible parties?
- What types of activities would address the problem?



Beneficiaries

- At what level would benefits of activities accrue (state, regional, or local)?
- Would activities result in broad public benefits, or more limited regional or private benefits?



Nexus Between Activities and Funding Sources

- What entities would pay and at what rates?
- How closely linked are the sources of new funding with the activities the funds would support? How closely aligned are the potential payers with the responsible parties or potential beneficiaries?



Revenues

- How much revenue is needed to support intended activities? How stable or variable would annual revenues be?



Important Considerations Around Water Funding Options

(Continued)



Enactment and Implementation

- Which entities (for example, the Legislature, voters, or ratepayers) would have to approve the new option? What are the vote requirements for passage?
- What data would be necessary for implementation (for example, water use data or impacts of particular contaminants)? Are such data currently available? How complicated would the option be to implement?
- How much latitude would exist over how funds could be used? Would funds be limited to certain types of activities?



Key Legislative Options to Increase Funding for Water-Related Activities

State-Level Funding

- Regulatory Fee.** Impose fee (for example, on fertilizer) specifically to cover state costs associated with addressing certain environmental damage caused by pollutant.
- Polluter Charge.** Impose charge based on potential contaminant such as chemicals (for example, on pesticides).
- Water Use Tax.** Impose tax on consumers based on amount of water used. Revenues could be allocated by state or maintained at local level where generated.
- Broad Special Tax.** Impose tax, such as new sales tax increment, to be dedicated for specific water-related activities.
- General Fund.** Increase existing spending levels, potentially including for new general obligation bond.

Local-Level Funding

- Water-Related Fees.** Amend Constitution to modify approval process for fees for certain activities (such as stormwater or flood protection).
- Differential Water Rates.** Amend Constitution to modify cost-of-service requirements, allow agencies to charge different rates for different types of water users.