Water Policy Issues:
CALFED Bay-Delta Program and Flood Management

Presented To:
Assembly Budget Subcommittee No. 3 on Resources
Assembly Water, Parks and Wildlife Committee

Hon. Fran Pavley and Hon. Lois Wolk, Chairs
Flood Management: DWR White Paper

A Department of Water Resources (DWR) White Paper has identified various factors leading to what the administration calls a “crisis” in flood management. These factors include:

- Aging infrastructure and deferred maintenance in the state Central Valley flood control system.
- Escalating development in floodplains.
- Declining fiscal resources.
- State’s potential liability.

Additional flood management issues for legislative consideration:

- Lack of state oversight over a majority of levees in the Delta, many of which are in fragile condition.
- Disconnect between agencies making land use decisions and the flood-related fiscal consequences of those decisions.

The White Paper’s solution strategies to address flood management problems include:

- Evaluate flood control system integrity, rehabilitate as needed, and improve maintenance.
- Create reliable funding sources, including Central Valley flood control benefit assessment and establishing insurance requirements for property owners in flood-prone areas.
- Improve floodplain mapping and outreach on flood risks.
- Reduce state’s liability exposure through statutory and constitutional amendments that provide liability immunity for flood protection activities.
The 2005-06 Governor’s Budget proposes about $73 million for DWR’s flood management programs. This reflects an increase of $30.8 million (73 percent) over current-year appropriations. The components of the budget increase are shown in Figure 1.

### Figure 1

**Governor’s 2005-06 Budget Request: Increase for Flood Management**

*(In Thousands)*

<table>
<thead>
<tr>
<th>State Support</th>
</tr>
</thead>
<tbody>
<tr>
<td>Flood project maintenance: $5,123</td>
</tr>
<tr>
<td>Floodplain management: 2,000</td>
</tr>
<tr>
<td>Emergency response: 1,730</td>
</tr>
<tr>
<td>System re-evaluation and rehabilitation: 835</td>
</tr>
<tr>
<td><strong>Total ($9,688&lt;sup&gt;a&lt;/sup&gt;)</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Capital Outlay</th>
</tr>
</thead>
<tbody>
<tr>
<td>Various capital outlay projects: $21,112&lt;sup&gt;b&lt;/sup&gt;</td>
</tr>
<tr>
<td><strong>Total $30,800</strong></td>
</tr>
</tbody>
</table>

<sup>a</sup> All General Fund.

<sup>b</sup> $16,700 from the General Fund, $4,412 from reimbursements.

About $19.2 million (mostly Proposition 50 bond funds) is budgeted for the CALFED levees program (a component of DWR’s flood management budget) in 2005-06.
Flood Management: CALFED Connection

The CALFED Bay-Delta Program’s connection to flood management is as follows:

- The CALFED levees program is focused on the 700-plus miles of levees in the Delta that are generally owned and maintained by local reclamation districts and are outside of the jurisdiction of the state Central Valley flood control system. The state does not have a responsibility to inspect these levees. Rather, the state’s main role with respect to these levees is to administer a subventions (local assistance) program.

- The CALFED levee program budget has totaled about $80 million from 2000-01 through 2004-05. Most of these expenditures to date have been for maintenance of Delta levees, as opposed to upgrades.

- The cost to raise Delta levees covered under the CALFED program to current federal engineering standards has been estimated at $1.3 billion.
The LAO’s recommended legislative steps to begin addressing the flood management problems include the following four sets of actions:

- Direct development of multiyear plan to assess structural integrity and carrying capacity of the state Central Valley flood control system.

- Enact Central Valley flood control benefit assessment. Note: Assembly Bill 1665 (Laird) would enact such an assessment.

- Re-evaluate state’s role with respect to Delta levees that are currently outside of the state flood control system.

- Improve connection between land use decision making and resulting flood-related fiscal consequences. This could be done by revising eligibility criteria for flood control subventions and by enacting a floodplain development fee.
Calfed Bay-Delta Program: Funding History

The Calfed “Record of Decision” adopts the “beneficiary pays” funding principle for financing Calfed, but provides little guidance regarding its implementation.

To date, state funds (mostly bond funds and the General Fund) have contributed most to Calfed, as shown in Figure 2 below:

<table>
<thead>
<tr>
<th>Year</th>
<th>State Funds</th>
<th>Federal Funds</th>
<th>Local/User Funds</th>
<th>Total Funding</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000-01</td>
<td>$320.3</td>
<td>$53.1</td>
<td>$125.2</td>
<td>$498.6</td>
</tr>
<tr>
<td>2001-02</td>
<td>416.0</td>
<td>67.8</td>
<td>138.0</td>
<td>621.8</td>
</tr>
<tr>
<td>2002-03</td>
<td>276.1</td>
<td>45.1</td>
<td>154.5</td>
<td>475.7</td>
</tr>
<tr>
<td>2003-04</td>
<td>471.2</td>
<td>40.3</td>
<td>228.7</td>
<td>740.2</td>
</tr>
<tr>
<td>2004-05</td>
<td>368.4</td>
<td>35.3</td>
<td>509.1</td>
<td>912.8</td>
</tr>
<tr>
<td>Totals</td>
<td>$1,852.0</td>
<td>$241.6</td>
<td>$1,155.5</td>
<td>$3,249.1</td>
</tr>
</tbody>
</table>

*a Includes revenues from Central Valley Project Improvement Act Restoration Fund (funded by water users), State Water Project contractor revenues, and local matching funds mainly for water recycling grants. There is additional local funding of an unknown amount that supports Calfed objectives, but is not currently tracked by the California Bay-Delta Authority unless it is in the form of matching funds.
The breakdown of the $1.9 billion of state funds contributed between 2000-01 and 2004-05, by funding source, is shown in Figure 3:

<table>
<thead>
<tr>
<th>Fund Source</th>
<th>Amount (In Millions)</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Proposition 50 bond funds</td>
<td>$609.3</td>
<td>33 percent</td>
</tr>
<tr>
<td>Proposition 13 bond funds</td>
<td>$585.8</td>
<td>32 percent</td>
</tr>
<tr>
<td>Proposition 204 bond funds</td>
<td>$386.6</td>
<td>21 percent</td>
</tr>
<tr>
<td>General Fund</td>
<td>$249.7</td>
<td>13 percent</td>
</tr>
<tr>
<td>Other funds</td>
<td>$20.6</td>
<td>1 percent</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$1,852</strong></td>
<td><strong>100 percent</strong></td>
</tr>
</tbody>
</table>
The California Bay-Delta Authority has recently adopted an $8.1 billion ten-year finance plan for CALFED (2004-05 through 2013-14). The plan allocates this cost among state taxpayers, federal taxpayers, water users, and local grant matching sources, based on an evaluation of who benefits from the programs and projects encompassed by the $8.1 billion. Figure 4 shows this funding allocation among beneficiaries:

**Figure 4**

**CALFED Ten-Year Finance Plan**

2004-05 Through 2013-14  
(Dollars in Millions)

<table>
<thead>
<tr>
<th>Program Element</th>
<th>State</th>
<th>Federal</th>
<th>Water Users</th>
<th>Local Match</th>
<th>Total Funding Target</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ecosystem restoration</td>
<td>$542</td>
<td>$408</td>
<td>$400</td>
<td>$150</td>
<td>$1,500</td>
</tr>
<tr>
<td>Environmental Water Account</td>
<td>180</td>
<td>135</td>
<td>123</td>
<td>—</td>
<td>438</td>
</tr>
<tr>
<td>Water use efficiency</td>
<td>575</td>
<td>530</td>
<td>—</td>
<td>2,048</td>
<td>3,153</td>
</tr>
<tr>
<td>Water transfers</td>
<td>6</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>6</td>
</tr>
<tr>
<td>Watershed</td>
<td>196</td>
<td>161</td>
<td>—</td>
<td>66</td>
<td>423</td>
</tr>
<tr>
<td>Water quality</td>
<td>81</td>
<td>72</td>
<td>17</td>
<td>105</td>
<td>276</td>
</tr>
<tr>
<td>Levees</td>
<td>186</td>
<td>175</td>
<td>32</td>
<td>53</td>
<td>446</td>
</tr>
<tr>
<td>Storage</td>
<td>292</td>
<td>36</td>
<td>9</td>
<td>750</td>
<td>1,087</td>
</tr>
<tr>
<td>Conveyance</td>
<td>109</td>
<td>6</td>
<td>71</td>
<td>—</td>
<td>185</td>
</tr>
<tr>
<td>Science</td>
<td>167</td>
<td>151</td>
<td>108</td>
<td>11</td>
<td>437</td>
</tr>
<tr>
<td>Oversight and coordination</td>
<td>75</td>
<td>46</td>
<td>—</td>
<td>—</td>
<td>121</td>
</tr>
<tr>
<td><strong>Totals</strong></td>
<td><strong>$2,408</strong></td>
<td><strong>$1,722</strong></td>
<td><strong>$760</strong></td>
<td><strong>$3,183</strong></td>
<td><strong>$8,073</strong></td>
</tr>
</tbody>
</table>

Total Percentage  
30% 21% 9% 40% 100%
Almost 80 percent ($6.3 billion) of the finance plan’s funding target depends on the generation of new revenues, as shown in Figure 5:

How specifically does the finance plan propose to fill the $6.3 billion funding shortfall? In a nutshell, the finance plan:

- Relies on a substantial increase in federal funds (many times greater than past federal contributions).
- Relies on new sources of state public funds, but does not recommend or propose what the particular funding sources should be. (These sources could be the General Fund, a yet-to-be-approved state water bond, a new statewide water surcharge, among others.)
- Assumes new (or increased) water user fee revenues to partially support a number of CALFED programs, but with the exception of the ecosystem restoration program, does not propose or offer options for a specific fee structure.
The finance plan’s assumption of greatly increased levels of federal funding is a major source of uncertainty underlying the plan. Specifically, the finance plan assumes additional federal funds totaling almost $1.7 billion over the plan’s ten-year term. To put this into context, the program has received only about $240 million of federal funds during its first five years. While a recent federal authorization bill signed by the President includes $389 million for CALFED, it is risky to assume that all of those funds will be appropriated over the six years of the authorization.

An equal source of substantial uncertainty is the plan’s assumption that $1.5 billion of the program’s costs will be funded by unidentified new sources of state public funds.
CALFED Bay-Delta Program: Ten-Year Finance Plan: Water User Fees

The finance plan assumes new (or increased) water user fee revenues to partially support the following CALFED programs:

- Ecosystem restoration.
- Environmental Water Account.
- Science.
- Delta levees.

The enactment of a new broad-based user fee to partially support the CALFED ecosystem restoration program (ERP) is several years behind schedule, given that:

- The implementation plan for the CALFED Record of Decision provided that collection of such a user fee, in the amount of $35 million annually, would begin in 2003.
- The Legislature in the 2003 Budget Act directed that the California Bay-Delta Authority (CBDA) submit such a fee proposal for inclusion in the 2004-05 Governor’s Budget. Such a proposal was not submitted as directed by the Legislature.

The finance plan provides that collection of a new water user fee to partially support the ERP will not begin until 2006-07, although it assumes that a 2005-06 budget trailer bill will enact the fee.

The finance plan provides that water user contributions for the ERP will come from two sources: (1) $20 million annually from Central Valley Project (CVP) water users (roughly the current contribution from the Central Valley Project Improvement Act Restoration Fund) and (2) $25 million annually from a new fee levied on non-CVP water users.
The finance plan does not propose a structure for the new water user fee, but CBDA staff have developed a number of options for this new fee (which would require legislation to enact). These options include:

- A fee on water diverters from the Bay-Delta system who are not making payments to the Central Valley Project Improvement Act Restoration Fund.

- A fee based on storage capacity in Bay-Delta system reservoirs.

- A combination of the above two fee options.
CALFED Ten-Year Finance Plan: LAO Recommendations

☐ We recommend the enactment of legislation that adopts the beneficiary pays principle for funding CALFED and provides guidance regarding its application. Specifically, the legislation should define “public benefit” and “user benefit,” so as to provide objective guidance when public funding and fee-based water user funding, respectively, are appropriate.

☐ We recommend that the Legislature establish expenditure priorities for CALFED so that the program can be “right sized” consistent with those priorities and realistic revenue assumptions.