

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

LEGISLATIVE ANALYST'S OFFICE

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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.



Flood Management: Governor's Budget Proposal

- 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	
<i>(In Thousands)</i>	
State Support	
Flood project maintenance	\$5,123
Floodplain management	2,000
Emergency response	1,730
System re-evaluation and rehabilitation	835
Total	(\$9,688^a)
Capital Outlay	
Various capital outlay projects	\$21,112 ^b
Total	\$30,800

^a All General Fund.
^b \$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.



Flood Management: LAO Recommendations

- ☑ 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:

Figure 2				
CALFED Funding, by Source				
<i>2000-01 Through 2004-05 (In Millions)</i>				
Year	State Funds	Federal Funds	Local/User Funds^a	Total Funding
2000-01	\$320.3	\$53.1	\$125.2	\$498.6
2001-02	416.0	67.8	138.0	621.8
2002-03	276.1	45.1	154.5	475.7
2003-04	471.2	40.3	228.7	740.2
2004-05	368.4	35.3	509.1	912.8
Totals	\$1,852.0	\$241.6	\$1,155.5	\$3,249.1

^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.



CALFED Bay-Delta Program: Funding History

(Continued)

- 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:

Figure 3	
CALFED State Funding, by Source	
<i>2000-01 Through 2004-05 (In Millions)</i>	
Fund Source	Amount
Proposition 50 bond funds	\$609.3 (33 percent)
Proposition 13 bond funds	585.8 (32 percent)
Proposition 204 bond funds	386.6 (21 percent)
General Fund	249.7 (13 percent)
Other funds	20.6 (1 percent)
Total	\$1,852 (100 percent)



CALFED Bay-Delta Program: Ten-Year Finance Plan: Summary

- ☑
 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					
<i>2004-05 Through 2013-14</i>					
<i>(Dollars in Millions)</i>					
Program Element	Funding Allocation by Beneficiary				Total Funding Target
	State	Federal	Water Users	Local Match	
Ecosystem restoration	\$542	\$408	\$400	\$150	\$1,500
Environmental Water Account	180	135	123	—	438
Water use efficiency	575	530	—	2,048	3,153
Water transfers	6	—	—	—	6
Watershed	196	161	—	66	423
Water quality	81	72	17	105	276
Levees	186	175	32	53	446
Storage	292	36	9	750	1,087
Conveyance	109	6	71	—	185
Science	167	151	108	11	437
Oversight and coordination	75	46	—	—	121
Totals	\$2,408	\$1,722	\$760	\$3,183	\$8,073
Total Percentage	30%	21%	9%	40%	100%



CALFED Bay-Delta Program: Ten-Year Finance Plan: Summary *(Continued)*

- 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:

Figure 5				
CALFED				
Funding Requirements Versus Available Funding				
<i>2004-05 Through 2013-14 (Dollars in Millions)</i>				
Fund Source	CALFED Funding		Shortfall	
	Target^a	Available^b	Amount	Percent
State funds	\$2,407	\$885	-\$1,522	-63%
Federal funds	1,722	34	-1,688	-98
Water users	760	225	-535	-70
Local match	3,184	604	-2,580	-81
Totals	\$8,073	\$1,748	-\$6,325	-78%

^a Pursuant to ten-year finance plan approved by California Bay-Delta Authority, December 2004.
^b Includes remaining state bond funds and assumed continuation of base-level state funding from sources other than bonds, such as the General Fund; local matching funds to match remaining state bond funds; and continuation of existing level of revenues from State Water Project and Central Valley Project water users.

- 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.



CALFED Bay-Delta Program: Ten-Year Finance Plan: Summary *(Continued)*

- 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.



CALFED Bay-Delta Program: Ten-Year Finance Plan: Water User Fees

(Continued)

- 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.