

Governor's Water Management Bond and Financing Proposals

LEGISLATIVE ANALYST'S OFFICE

Presented To:

Assembly Water, Parks and Wildlife Committee

Hon. Lois Wolk, Chair





Summary of Governor's Proposals



The Governor's proposals are contained in AB 1839 (Laird) and SB 1166 (Aanestad) which provide for the following:

- \$3 billion of general obligation bonds (\$1 billion for flood protection and \$2 billion for water management) in a 2006 bond act. (See figure on page 3 for allocation of funds.)
- \$6 billion of general obligation bonds (\$1.5 billion for flood protection and \$4.5 billion for water management) in a 2010 bond act. (See figure on page 3 for allocation of funds.)
- The California Water Resources Investment Act.



The California Water Resources Investment Act encompasses the following:

- Applies an "integrated regional water management" approach.
- Creates a new "water resources capacity charge" imposed on every retail water supplier in the state, based on the actual number and types of water connections in each supplier's service area; provides a schedule of the capacity charges, varying from \$0 to \$10 per month per connection, depending on the type of water connection.
- According to the administration, the charge would initially raise about \$380 million annually, and would raise on average about \$500 million annually over the ten-year term of the Strategic Growth Plan. Revenues from the charge would be deposited in the new California Water Resources Investment Fund.



Summary of Governor's Proposals *(Continued)*

- Revenues in the investment fund are to be allocated as follows:
 - **50 Percent to 11 “Regional Investment Accounts”** (the state is divided into 11 funding regions), with revenues allocated to each regional account on a pro rata basis reflecting the amount of the capacity charge revenues collected within the respective region. Moneys in the regional accounts are continuously appropriated. Projects funded from a regional account are to be consistent with an integrated regional water management plan that meets the requirements of regulations to be adopted by the Department of Water Resources (DWR).
 - **50 Percent to a “State Investment Account.”** Moneys in this account are to be expended upon appropriation by the Legislature, based on a very broad set of priorities, such as “support for priority regional projects” and “water infrastructure of statewide significance.”



Summary of Governor's Proposals *(Continued)*

Figure 1		
The 2006 and 2010 Bond Acts—Allocation of Funds		
<i>(In Millions)</i>		
	2006 Bond Act	2010 Bond Act
Flood Control		
Repair of levees and facilities in state Central Valley flood control system	\$210—upon appropriation.	\$300—upon appropriation.
Improvements/additions to levees and facilities in state Central Valley flood control system	\$200—upon appropriation.	\$200—upon appropriation.
Delta levees—subventions and state “special projects”	\$210—upon appropriation.	\$700—upon appropriation.
State share of locally sponsored, federally authorized flood control projects (Flood Control Subventions Program)	\$250—continuous appropriations.	\$200—continuous appropriations.
Floodplain mapping	\$90—upon appropriation.	—
Floodway corridor development within state Central Valley flood control system (including property acquisition with preference for easements)	\$40—upon appropriation.	\$100—upon appropriation.
Flood control subtotals	(\$1,000)	(\$1,500)
Water Management		
Integrated regional water management grants with scheduled allocation among 11 funding regions	\$1,000—continuous appropriations.	\$2,000—upon appropriation.
Water quality improvements	\$250—continuous appropriations.	\$500—upon appropriation.
Water storage	\$250—continuous appropriations.	\$1,000—upon appropriation.
Science and technology—research, development, evaluation, and implementation	\$300—continuous appropriations.	\$500—upon appropriation.
Resource stewardship and ecosystem restoration	\$200—continuous appropriations.	\$500—upon appropriation.
Water management subtotals	(\$2,000)	(\$4,500)
Totals	\$3,000	\$6,000



Issues for Legislative Consideration

☑ There are a number of fiscal, policy, and technical/practical issues that we think the Legislature should consider in evaluating the Governor's water management bond and financing proposals. The main issues, discussed below, concern:

- Retaining legislative oversight.
- Evaluating policy choices inherent in Governor's proposals.
- Ensuring administrative costs are reasonable.
- Considering how Governor's proposals fit within existing programs in multiple departments.

☑ Retaining Legislative Oversight

- **Continuous Appropriations.** Governor's proposals provide for a substantial amount of funding that is "continuously appropriated"—this includes the \$2 billion of water management funds in the 2006 bond and all of the funds in the regional investment accounts in the California Water Resources Investment Fund (a projected \$2.5 billion over ten years).
 - When funds are continuously appropriated, the Legislature loses much of its ability to oversee expenditures from these funds—oversight that is generally exercised in its review and approval of the annual budget.
 - Most of continuous appropriations authority in the Governor's water management proposals is provided to new programs for which funding eligibility guidelines and administrative processes will need to be put in place and major policy decisions would be made solely by the administration.



Issues for Legislative Consideration

(Continued)

- ***Leaving Key Policy Decisions to Be Made Administratively.*** In a number of cases the Governor's proposals (both bond acts and the California Water Resources Investment Act) leave it to the administration to make major policy-laden decisions in the future that substantially affect the allocation of funding. For example:
 - Much of water management funding is tied to the concept of integrated regional water management planning—a concept that is to be defined in regulations to be adopted by DWR.
 - The California Water Commission (part of DWR) is granted the authority to propose changes to the water resources capacity charge fee schedule that can only be overturned by the Legislature passing urgency legislation to do so.
 - The funding parameters for many programs funded under the bond acts and the California Water Resources Investment Act are very broad—for example, the parameters for eligible expenditures from the State Investment Account—thereby granting the administration considerable discretion to implement its policy and funding priorities.



Issues for Legislative Consideration

(Continued)

Evaluating Policy Choices Inherent in Governor's Proposals

- There are a number of policy choices inherent in the Governor's proposals, including:
 - Should private entities be eligible for state funding?
 - Should a water resources capacity charge be created and, if so, how should it be structured?
 - Should an integrated regional water management approach largely guide the allocation of new funds to address the state's water-related needs?

Ensuring Administrative Costs Are Reasonable

- The bond acts and the California Water Resources Investment Act do not provide any parameters or caps on administrative costs to administer grant programs (a substantial portion of the water management funding is proposed for grant programs—at least \$5.5 billion).
- Consistent with a number of prior resources bond measures, the Legislature could provide an administrative cost cap. We recommend a cap of up to 5 percent of appropriations for grant programs.



Issues for Legislative Consideration

(Continued)



Considering How Governor's Proposals Fit Within Existing Programs

- In the interest of program effectiveness and efficiency, funding allocated under the bond acts and the California Water Resources Investment Act should be coordinated with existing programs with similar purposes to the extent possible.
- We found a number of cases in the Governor's funding proposals where the fit within existing programs was unclear. For example, how do the new water management programs proposed for funding tie to the CALFED Bay-Delta Program? How does the funding allocated to DWR for ecosystem restoration tie to programs in other departments (notably, the Department of Fish and Game) who are, rather than DWR, largely responsible for this program area?