

Funding Flood Control

LEGISLATIVE ANALYST'S OFFICE

Presented To:
Senate Governmental Organization Committee
Hon. Dean Florez, Chair





State's Funding Role

The State's Funding Role Varies Depending on the Location of Flood Control Infrastructure

There are three areas of flood control infrastructure: the Central Valley flood control system, the Sacramento-San Joaquin River Delta, and the rest of the state. The state's funding role varies significantly among these three areas:

- ***The Central Valley.*** In the Central Valley, the state (acting through the Reclamation Board) is the nonfederal sponsor of federally authorized flood control projects. For these projects, the federal government contributes 65 percent of the project cost. Of the nonfederal share, the state contributes between 50 percent and 70 percent of the cost (General Fund capital outlay), while local agencies contribute the balance.
- ***The Delta.*** The state is generally not responsible for Delta levees (with the exception of the minority of levees that are federal projects for which the state is the project sponsor). However, because of the importance of the Delta levees for the operation of the State Water Project and Central Valley Project, the state has provided financial assistance to local reclamation districts in the Delta mainly for maintenance, primarily through the Delta Levees program.
- ***The Remainder of the State.*** Outside of the Central Valley and the Delta, the state's role in funding flood control is limited to providing local assistance funds to local project sponsors of federally authorized projects through the subventions program (typically General Fund). The state currently owes approximately \$240 million to local governments for the state's share of costs of past projects, with an additional \$90 million projected to accrue in 2006-07.



Funding History

Historic Flood Management Funding

The figure below illustrates the state's funding level and sources of funds for flood control activities since 2000-01. These funds are spent on a combination of state operations, capital outlay, and local assistance.

Figure 1
Department of Water Resources
Flood Management Appropriations

(In Millions)

Fund Source	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07 ^a
General Fund	\$114.1	\$92.4	\$25.0	\$29.2	\$14.9	\$41.3	\$85.9
State operations	(17.5)	(19.1)	(17.6)	(14.5)	(14.9)	(24.3)	(39.5)
Local assistance	(84.3)	(47.7)	(1.1)	(11.0)	—	—	(15.0)
Capital outlay	(12.3)	(25.6)	(6.3)	(3.6)	—	(17.0)	(31.4)
Proposition 13 Bond Funds	\$140.5	\$15.6	\$28.2	\$14.7	\$22.5	\$36.0	\$3.8
Proposition 50 Bond Funds	—	—	\$2.3	\$21.4	\$21.4	\$18.8	\$1.0
Other Funds^b	\$14.0	\$12.3	\$6.9	\$6.7	\$6.8	\$11.6	\$18.0
Totals	\$268.5	\$120.3	\$62.4	\$72.0	\$65.6	\$107.7	\$108.8

^a This table reflects the Governor's January budget proposal. The January budget proposal has been modified by the May Revision, to be discussed below. Additionally, the Legislature has recently passed AB 142 (Nuñez), which provides a \$500 million appropriation from the General Fund, as discussed later.

^b Includes federal funds and reimbursements.



January Budget Proposal

2006-07 Budget Proposal

- The Governor's January budget proposes *increases* of \$7.6 million in one-time funds and \$30.6 million in ongoing funds (mainly General Fund) for the Department of Water Resources' (DWR's) flood management state operations and local assistance. In addition, the budget proposes a total of \$31.4 million for the General Fund for capital outlay projects. (The budget also reflects a significant reduction in available bond funds.) Details of the 2006-07 budget proposal for flood management are included in Figure 2.

Figure 2 Department of Water Resources, January Budget Proposal Flood Management Increases^a		
<i>2006-07</i> <i>(In Millions)</i>		
Element	One-Time Funds	Ongoing Funds
State Operations and Local Assistance		
CALFED levees (includes \$2.5 million bond funds)	\$4.5	\$13.0
Flood project maintenance	2.0	11.3
Floodplain management	—	3.0
Emergency response	0.7	1.6
System reevaluation and rehabilitation	0.5	1.7
Totals	\$7.6	\$30.6
Capital Outlay Projects (excludes reimbursements)	\$31.4	—

^a General Fund, unless otherwise noted.



Latest Developments



The Governor's Emergency Declaration

- On February 24, 2006, the Governor declared a state of emergency for California's levee system.
- The U.S. Army Corps of Engineers (Corps) has identified 24 critical erosion sites in the Sacramento and San Joaquin River flood control systems. Subsequently the Corps added five additional sites to the critical erosion site list.
- Under the executive order, the Governor transferred approximately \$100 million from the Disaster Response Account to DWR. The department is working with the Corps to complete repairs to the critical erosion sites by the fall of 2006. It is not yet clear whether these funds will be sufficient.
- Currently, the Corps is working on three sites and has agreed to repair an additional ten sites using \$30 million in state funds. The department will contract for repairs on the other 11 sites initially identified by the Corps. The department is currently evaluating the cost to repair the additional five sites identified by the Corps.



AB 142 (Nuñez) Appropriation

- The Legislature voted to appropriate \$500 million (General Fund) for levee evaluation, repair, and flood-related improvements.
- The legislation directed that critical levee erosion repairs conducted pursuant to the Governor's executive order be made with these funds.
- These funds will likely be spend over a three-year period, mostly beginning in 2006-07.



Latest Developments

(Continued)



The Governor's May Revision Budget Proposal

- Includes \$2.1 million for 17 positions to plan for and oversee critical erosion site repairs as directed by the Governor's Emergency Declaration.
- Includes \$100 million in local assistance for flood control subventions, including \$10 million for projects on the Napa River.



Bond Proposals

Recent Flood-Related Bond Proposals

The figure below shows the flood management-related components of a number of legislative and voter initiative proposals under consideration this session.

Figure 3				
Various Bond Proposals; Water and Natural Resources Portions				
<i>(In Millions)</i>				
Subject	Strategic Growth Plan ^a			Resources Initiative ^b
	2005 Bond	2010 Bond	AB 140 Enrolled	
Flood Protection	\$1,000	\$1,500	\$4,090	\$800
Central Valley flood control system: repair, replacement	(410)	(500)	(3,000) ^c	(275)
Delta levees	(210)	(700)	—	(275)
Flood control subventions	(250)	(200)	(500)	(180)
Flood protection corridors	(40)	(100)	(290) ^d	(40)
Floodplain mapping	(90)	—	—	(30)
Stormwater flood management	—	—	(300)	—
Other Water Management and Natural Resource Protection	\$2,000	\$4,500	—	\$4,588
Totals	\$3,000	\$6,000	\$4,090	\$5,388

^a The Strategic Growth Plan also envisioned imposing a fee on water users. This fee was projected to generate approximately \$500 million per year. Fifty percent of these funds would be allocated for integrated regional water management projects and 50 percent of the funds would be used for water projects of statewide significance.

^b Qualifying for November ballot.

^c The enrolled bond act provides for \$3 billion for repair and reconstruction of levees and other flood control structures in the Central Valley, improvement of flood structures in the Central Valley, and projects to reduce the risk of levee failure in the Delta.

^d Includes funding for floodplain mapping.



Funding Requirements

Identified Funding Requirements

The department has made rough estimates of the funds that would be required to rehabilitate and/or upgrade the flood control system in the state. These funding requirements are driven by an aging flood control system (largely built at the beginning of the twentieth century), deferred maintenance, increasing development in floodplains and behind levees that were not designed to protect urban areas, and limited funds for maintenance of the system in recent years.

- ***Systemwide Assessment—\$50 Million to \$100 Million—*** to comprehensively evaluate the structural integrity of the Central Valley flood control system.
- ***Restore Central Valley Levees to Original Design Capacity—\$1 Billion to \$1.5 Billion.***
- ***Upgrade Flood Protection in Central Valley for Urban Areas—\$1 Billion to \$1.5 Billion.***
- ***Reconstruct the Central Valley Levee and Flood Control Channel System—\$2 Billion to \$4 Billion—***to provide increased flood protection, provide environmental restoration, and improve the state's ability to maintain the system.
- ***Critical Delta Levee Upgrades—\$3 Billion to \$5 Billion.***



Options for Financing Flood Control

There are a number of options for financing flood control, which could be used individually or in combination with one another:



Continued Reliance on the General Fund

- Puts the funding responsibility on all state taxpayers—this is appropriate where there are statewide benefits.
- The condition of the General Fund varies with the strength of the state's economy; and the state continues to face a substantial structural deficit.



Use of General Obligation Bonds

- Increases the state's ability to fund large projects in the near term.
- Bonds are an appropriate tool when the asset produced will provide long-term benefits.
- Bonds could be backed by the General Fund and/or another funding source such as user fees.



User Fees

The state could rely on increased—but not exclusive—reliance on user fees and/or assessments, applying the “beneficiary pays” principle. Additional fees or assessments could be used for operations and maintenance, for direct capital outlay, or to pay off bonds.

- For flood projects in both the Central Valley and the Delta, the beneficiaries include:
 - Property owners living behind the levees.
 - Water users throughout the state who rely on the Central Valley system and the Delta to convey water to the State Water Project and Central Valley Project.



Options for Financing Flood Control *(Continued)*

- The state as a whole, which receives economic benefit from the continued operation of the Central Valley and Delta levee systems. Additionally, the state has an obligation to protect the life and safety of those living behind the Central Valley levees, and under the *Paterno* decision, the state can be financially liable for levee failures even if operations and maintenance are a local responsibility.
- There are many ways that the Legislature could require the beneficiaries to pay for flood control, including:
 - ***A Central Valley-Based Floodplain Development Fee.*** This would require new growth in the Central Valley to pay for needed levee upgrades.
 - ***A Central Valley-Wide Flood Control Assessment.*** This would require the beneficiaries of flood control levees to pay a portion of the costs to upgrade and maintain the state's Central Valley flood control system.
 - ***Statewide Water Use Fee.*** The Governor's Strategic Growth Plan envisioned enacting a statewide water use fee. The revenues from this fee were proposed for a variety of water-related activities, including flood control projects.



Flood Control and Land Use Planning

Connecting Flood Control and Land Use Planning

In the Central Valley, the state has responsibility for the continued operation of the flood control system. In the Delta, the state has a direct interest in the continued operation of the State Water Project and the Central Valley Project. However, the state has little control over the land use decisions that may exacerbate the state's flood control liability, since land use decisions are vested with local governments.

There are several options that the Legislature may wish to consider to more closely tie land use planning to flood control. For example, the Legislature could:

- ***Mandate Flood Insurance in Flood Plains.*** The DWR has proposed that the state require all property owners in a flood plain to purchase flood insurance. This may reduce the state's liability in flood events and, by raising the relative cost of development in flood plains to other areas, may encourage development in less flood prone areas. This concept has been included in AB 1898 (Jones), introduced this session.
- ***Limit State Flood Control Funding for Projects in Local Jurisdictions That Allow Development in Areas With Substantial Flood Risks.*** This could discourage risky development while encouraging development in less flood prone areas. Alternatively, the state could require local governments to indemnify the state for flood risks or require that the local government certify that a certain level of flood protection will occur as a condition of receiving state funds.
- ***Enact a "Show Me the Flood Control" Requirement.*** The state could require that local land use agencies certify that new development will have an adequate level of flood control, as they are now required to do to ensure that new development has an adequate water supply. Such a requirement has been proposed in AB 1899 (Wolk), introduced this session. Alternatively, the state would require that local general plans include a flood control element, as proposed by AB 802 (Wolk), introduced in the 2005 session.