

February 10, 2015

Implementing the 2014 Water Bond

LEGISLATIVE ANALYST'S OFFICE

Presented to:
Assembly Committee on Water, Parks, and Wildlife
Hon. Marc Levine, Chair





Overview of the 2014 Water Bond (Proposition 1)

Uses of Proposition 1	
<i>(In Millions)</i>	
Purpose	Total Allocation
Water storage	\$2,700
Watershed protection and restoration	1,495
Groundwater sustainability	900
Regional water management	810
Water recycling and desalination	725
Drinking water quality	520
Flood protection	395
Total	\$7,545

- Voters approved Proposition 1 in November 2014. The bond provides \$7.5 billion to fund various water-related projects. Of this total, \$425 million was redirected from unsold bonds previously authorized by voters for resources-related purposes.
- As shown in the figure, the two largest categories of funding included in Proposition 1 are water storage (\$2.7 billion) and watershed protection and restoration (\$1.5 billion).



Proposition 1 Implementation

- Water Storage Funds Are Continuously Appropriated.*** Proposition 1 provides a continuous appropriation to the California Water Commission for the \$2.7 billion for water storage. The commission would not have to go through the state budget process to spend these funds.
- Legislature Appropriates Other Bond Funds.*** For other bond allocations, the Legislature will appropriate bond funds to state departments. After receiving appropriations for capital projects, departments have three years to commit funds and two additional years to spend them.
- Departments Select Projects.*** Departments will typically select projects on a competitive basis. The measure prohibits the Legislature from allocating bond funds to specific projects. However, the Legislature can provide some direction on what types of projects or programs departments select. Most funding under the bond (\$5.7 billion) is available only if recipients provide matching funding to support the projects.
- State Sells Bonds.*** The Department of Finance works with departments and the State Treasurer's Office to determine the timing of bond sales. Generally, the state attempts to coordinate timing of bond sales to project needs in order to reduce interest costs.
- State Repays Bonds With Interest.*** The state repays bonds over time with interest. We anticipate that it will cost an average of about \$360 million annually over the next 40 years to repay the new bond authority provided in Proposition 1.



Governor's Proposal

Governor's 2015-16 Proposals for Proposition 1 Bond Funds	
<i>(In Millions)</i>	
Purpose	Proposed for 2015-16
Water Storage	\$3
Water storage projects	\$3
Watershed Protection and Restoration	\$178
Conservancy restoration projects	\$84
Enhanced stream flows	39
Watershed restoration benefiting state and Delta	37
Los Angeles River restoration	19
Urban watersheds	<1
Various state obligations and agreements	—
Groundwater Sustainability	\$22
Groundwater sustainability plans and projects	\$22
Groundwater cleanup projects	1
Regional Water Management	\$57
Integrated Regional Water Management	\$33
Water use efficiency	23
Stormwater management	1
Water Recycling and Desalination	\$137
Water recycling and desalination	\$137
Drinking Water Quality	\$136
Drinking water for disadvantaged communities	\$69
Wastewater treatment in small communities	66
Flood Protection	—
Delta flood protection	—
Statewide flood protection	—
Administration and Oversight^a	\$1
Administration	\$1
Total	\$533

^a Bond does not provide specific allocation for bond administration and oversight. It allows the use of other allocations for this purpose.



LAO Principles: Furthering State Priorities

Examples of Priorities and Requirements in Proposition 1

Applies to All Allocations

- ✓ Fund high priority public benefits.
- ✓ Prioritize projects that leverage other funds or produce the greatest public benefit.
- ✓ Prioritize projects that employ new or innovative technology or practices.
- ✓ Implement the California Water Action Plan.
- ✓ Have professionals in relevant fields review proposals.

Applies to Specific Allocations

- ✓ Implement water storage projects that provide measurable improvements to the Delta and its tributaries.
- ✓ Do not fund watershed protection activities already required by environmental regulations.
- ✓ Do not fund groundwater cleanup where there is a responsible party that could pay.
- ✓ Provide public benefit by improving groundwater storage and groundwater quality.
- ✓ Provide incentives for water agencies to collaborate on regional water management.
- ✓ Prioritize water recycling and desalination projects based on benefits such as increased water supply and water quality.
- ✓ Address the critical and immediate water treatment needs of disadvantaged, rural, or small communities.
- ✓ Implement flood protection projects that provide public safety and environmental benefits.

- Further State Priorities.** Bond funds should further state priorities, including those identified in the bond and other statutes.



LAO Principles: Funding Cost-Effective Projects for the State

- ☑ **Funding State-Level Public Benefits.** Since these bonds will be repaid with state tax revenues, funds should be directed to projects that provide benefits to the state as a whole. Also, projects that have clear private beneficiaries who can pay for the projects should not be prioritized for bond funds.
- ☑ **Generating More Benefits Than Would Otherwise Occur.** Bond funds should be targeted to projects that create benefits above and beyond those that would have happened anyway to ensure that bond funds generate *additional* benefits for the state. For example, funding projects designed to allow local agencies to meet existing state or federal regulations should be avoided.
- ☑ **Funding Long-Term Projects.** Projects that generate long-term benefits should generally be prioritized over short-term projects or operational costs so that future taxpayers do not bear the cost of projects that do not benefit them.
- ☑ **Limit Administrative Costs.** Administrative and operational costs should be limited to the extent possible so that more funding can be reserved for infrastructure projects.
- ☑ **Considering Trade-offs.** There are often trade-offs associated with competing goals that should be considered. For example, sometimes funding the most cost-effective projects can conflict with a desire to spend bond funds quickly or assist disadvantaged communities.



LAO Principles: Ensuring Accountability and Oversight

- Accountability is important to promote transparency and good outcomes. Accountability requires that information on programs be public, accessible, and timely.

- Departments should collect and evaluate data on project outcomes to allow the Legislature and voters to understand what has been achieved with the investment of the bond dollars.