

APRIL 30, 2019

Funding Water-Related Activities

PRESENTED TO: Assembly Water, Parks, and Wildlife Committee
Hon. Eduardo Garcia, Chair



LEGISLATIVE ANALYST'S OFFICE

Existing Funding for Water-Related Activities

Most Water-Related Funding Generated at Local Level. According to the Public Policy Institute of California (PPIC), cumulative spending on water-related projects and activities is about \$33 billion annually. Of this, about \$28 billion, or 85 percent of the statewide total, is from local sources.

- Typical local funding sources include (1) fees for water and sewer services, (2) property taxes and assessments, (3) developer fees, (4) other local tax and fee revenues dedicated to water-related activities, and (5) local government general fund.

State and Federal Governments Also Provide Some Funding. PPIC estimates that annual spending is about \$4 billion from state sources (12 percent of total) and \$1 billion from federal sources (3 percent of total). This includes state-level expenditures and local assistance grants from state and federal sources.

- Most state expenditures are from—or for paying back—general obligation (GO) bonds.



Recent Bond Funding for Natural Resources

Natural Resources General Obligation Bonds Approved by Voters Since 2000

(Dollars in Millions)

| Proposition | Date | Primary Purposes | Amount ^a |
|--------------|---------------|--|---------------------|
| 12 | March 2000 | Parks and habitat protection | \$2,100 |
| 13 | March 2000 | Water supply and flood protection | 1,884 |
| 40 | March 2002 | Habitat protection, water quality, and parks | 2,597 |
| 50 | November 2002 | Coastal protection, Delta, water supply and quality | 3,345 |
| 1E | November 2006 | Flood protection | 3,990 |
| 84 | November 2006 | Water quality, habitat protection, flood protection, and parks | 5,266 |
| 1 | November 2014 | Water supply, habitat protection, and water quality | 7,465 |
| 68 | June 2018 | Habitat protection, parks, and flood protection | 4,100 |
| Total | | | \$30,747 |

^a Reflects amounts authorized by voters as adjusted by Proposition 1 and Proposition 68.

\$31 Billion in General Obligation Bonds Approved in Prior Two Decades.

Since 2000, voters have approved about \$31 billion in GO bonds in statewide elections to pay for different types of water, natural resources, and environmental protection-related projects.

GO Bond Debt Service Is a Large General Fund Expense in the

Resources Area. In general, the state pays more in the long run when it relies on bond debt because of the added interest costs. For each \$1 borrowed, the state generally pays about \$1.30 in debt service (when adjusted for inflation). The Governor's 2019-20 budget includes roughly \$1 billion from the General Fund to repay resources-related GO bond debt.



Recent Bond Funding for Water

| Recent Bond Funding for Water-Related Activities | | |
|---|-----------------------------|------------------------------|
| <i>(In Millions)</i> | | |
| | Proposition 1 (2014) | Proposition 68 (2018) |
| Water storage | \$2,700 | — |
| Watershed and ecosystem protection and restoration | 1,496 | \$1,497 |
| Sustainable groundwater management | 900 | 400 |
| Water recycling and desalination | 645 | 80 |
| Drinking water quality | 520 | 220 |
| Integrated Regional Water Management | 510 | — |
| Flood management | 395 | 460 |
| Stormwater management | 200 | 100 |
| Water use efficiency | 100 | 20 |
| Totals | \$7,465 | \$2,777 |

Two Most Recent Bonds Included Total of Over \$10 Billion for Water-Related Activities. Proposition 1 and Proposition 68 provided funding for several categories of activities.

Most Funding Has Been Committed or Appropriated for Projects. Almost 90 percent of Proposition 1 funding has been appropriated, with most of that committed to specific projects. If the Governor’s 2019-20 proposed budget is approved, over half of Proposition 68 funds will have been appropriated in the first two fiscal years since its passage.

Bonds Typically Used for Larger Projects That Provide Long-Term Benefits. Bonds typically fund larger infrastructure projects. Since infrastructure typically provides services over many years, it is reasonable for both current and future taxpayers to help pay for it. Additionally, the large costs of major projects can be difficult to pay for all at once. Bond funds are not typically used for ongoing activities like operations and maintenance.



Key Legislative Options to Increase Funding for Water-Related Activities

Despite existing funding from local sources and state GO bonds, the state and local agencies face increasing costs and funding challenges for water-related activities. The Legislature has considered various options for increasing such funding, including from:

State-Level Funding Sources

The Legislature could pursue options to generate new state-level revenues, including:

- **Regulatory Fee.** Impose fee on pollutants (for example, on fertilizer) specifically to cover state costs associated with addressing environmental damage caused by those pollutants.
- **Polluter Charge.** Impose charge based on potential contaminant, such as chemicals (for example, on pesticides).
- **Water Use Tax.** Impose tax on consumers, for example based on amount of water used. Revenues could be allocated by state or maintained at local level where generated.
- **Broad Special Tax.** Impose tax, such as new sales tax increment, to be dedicated for specific water-related activities.
- **General Fund.** Increase existing spending levels, potentially including new GO bond.

Local-Level Funding Sources

The Legislature could pursue options that would provide local agencies the authority to potentially generate new local-level revenues, including:

- **Water-Related Fees.** Amend State Constitution to modify approval process for fees for certain activities (such as stormwater or flood protection).
- **Differential Water Rates.** Amend State Constitution to modify cost-of-service requirements and allow agencies to charge different rates for different types of water users.



Important Considerations Around Water Funding Options

Determining how to fund various water-related activities can depend on many factors. Key questions in considering the most appropriate funding option—such as state-level funds, locally generated revenues, or a mix of funding sources—include:

Problem and Activities

- What is the cause of the problem to be addressed? Who are the responsible parties?
- What types of activities or projects would address the problem?

Beneficiaries

- How broadly would benefits of activities accrue (at the state, regional, or local level)?
- Would activities result in broad public benefits or more limited regional or private benefits?

Nexus Between Activities and Funding Sources

- What entities would pay and at what rates?
- How closely linked are the sources of new funding with the activities the funds would support? How closely aligned are the potential payers with the responsible parties or potential beneficiaries?

Revenues

- How much revenue is needed to support intended activities?
- How stable or variable would annual revenues be?



Important Considerations Around Water Funding Options

(Continued)

Enactment and Implementation

- Which entities (for example, the Legislature, voters, or ratepayers) would have to approve the new option? What are the vote requirements for passage?
- What data would be necessary for implementation (for example, water use data or impacts of particular contaminants)? Are such data currently available? How complicated would the option be to implement?
- How much latitude would exist over how funds could be used? Would funds be limited to certain types of activities?
- How will the Legislature and public be able to monitor and assess effective implementation of the new funding option? What oversight and evaluation opportunities will be available?

