

JANUARY 27, 2021

The 2021-22 Budget: Department of Water Resources



LEGISLATIVE ANALYST'S OFFICE

Department Overview

Department of Water Resources Budget Summary

(Dollars in Millions)

| Fund Source | 2019-20 Actual | 2020-21 Estimated | 2021-22 Proposed | Change | |
|--|-------------------|----------------------|---------------------|---------------|------------|
| | | | | Amount | Percent |
| State Water Project funds ^a | \$408 | \$1,902 | \$1,917 | \$15 | 1% |
| Bond funds | 517 | 724 ^b | 587 | -138 | -19 |
| General Fund | 250 | 409 | 323 | -86 | -21 |
| Special funds | 33 | 48 | 41 | -7 | -15 |
| Federal funds | 4 | 16 | 28 | 12 | 74 |
| Totals | \$1,213 | \$3,099 | \$2,896 | -\$204 | -7% |

^a Continuously appropriated outside of the annual state budget process.

^b Reflects amount from 2020-21 enacted budget package.

Proposes \$2.9 Billion in 2021-22. The Governor’s proposed budget for the Department of Water Resources (DWR) reflects a \$204 million (7 percent) decrease compared to estimated current-year expenditures, due primarily to a proposed reduction in bond funding. (The year-to-year decrease in General Fund is due to one-time funds provided in prior years.)

Major New Budget Proposals. The Governor’s significant budget proposals include the following (we discuss the first two in greater detail on subsequent pages):

- **Flood Management (\$284 Million).** The budget provides funding from the General Fund and bond funds for a variety of flood management programs and projects.
- **Sustainable Groundwater Management (\$60 Million).** The Governor requests one-time General Fund resources (including \$30 million proposed for early action) for grants to local agencies implementing Sustainable Groundwater Management Act (SGMA) requirements.
- **Delta Water Quality (\$25 Million).** The proposed budget includes one-time funding from Proposition 50 (2002) for projects that improve water quality or ecological conditions within the Sacramento-San Joaquin Delta.



Department Overview

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- **State Water Project (SWP, \$15 Million).** The budget proposal authorizes 67 new positions in 2021-22—growing to 150 new positions with a cost of \$31 million by 2024-25—to conduct maintenance and repairs on aging SWP infrastructure such as canals and dams. The positions would be funded outside of the state budget process by SWP water users, so the decision before the Legislature is whether to authorize the new positions and their associated costs.



Flood Management

Background

California Faces Significant and Increasing Flood Risk. Estimates suggest 7.3 million people (one-in-five Californians), structures valued at \$575 billion, and crops valued at \$7.5 billion are located in areas that currently have at least a 1-in-500 probability of flooding in any given year.

- **Water Conveyance Systems Depend on Levees.** In addition to providing flood protection, Delta levees are important components of the state and federal water systems that convey water from the northern part of the state to Central and Southern California. As such, levee failures could put those water supplies at risk.
- **Flood Risk Expected to Grow.** Scientists project that flood risk will increase with climate change, as California will experience more precipitation falling as rain rather than snow, and higher temperatures will cause the mountain snowpack to melt more rapidly and earlier in the season.
- **Levees at Risk of Failing.** Nearly 90 percent of Central Valley levee systems currently fail to meet federal performance standards, increasing the risk that they might fail.

State Has Special Responsibility for Managing Floods in Central Valley. California gave assurances to the federal government that it would oversee and maintain the “State Plan of Flood Control” (SPFC) system along the Sacramento and San Joaquin Rivers, including parts of the Delta. The system includes 1,600 miles of levees, four dams, and seven flood bypasses.

- **State Liable for Some Levee Maintenance Deficiencies.** The 2003 *Paterno v. California* court decision found that the state had failed to properly maintain a SPFC levee and therefore was liable for resulting flood damage when it failed in 1986. This precedent makes it possible that the state could ultimately be held responsible for the structural integrity of all SPFC facilities.



Flood Management

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Governor's Proposal

Governor's 2021-22 Flood Management Proposals

(In Millions)

| Project | Amount | Source |
|---|--------------|-------------------------|
| Delta levee projects | \$102 | Propositions 1 and 68 |
| Deferred maintenance on SPFC levees | 75 | General Fund |
| American River Common Features Project | 67 | General Fund |
| Statewide floodplain risk management studies and grants | 29 | Proposition 68 |
| Delta flood emergency preparedness | 7 | Proposition 1 |
| San Joaquin basin flood risk assessment and strategy | 4 | Proposition 68 and ELPF |
| Lower Yolo Bypass project | 1 | Proposition 1 |
| Total | \$284 | |

SPFC = State Plan of Flood Control and ELPF = Environmental License Plate Fund.

Budget Provides \$284 Million for Flood Management. The Governor's budget includes several proposals from different fund sources—mostly General Fund and bond funds—for various flood management projects and programs. All of these funds are proposed on a one-time or limited-term basis.

- **Delta Levee Projects (\$102 Million).** The budget includes \$89 million from Proposition 1 (2014) and \$13 million from Proposition 68 (2018), primarily for grants to local agencies for projects to maintain, repair, and improve levees in the Delta, as well as for associated habitat mitigation and enhancement projects.
- **Levee Deferred Maintenance (\$75 Million).** The budget provides one-time General Fund for projects on SPFC levees that have been identified as having deficiencies. These will be used for the highest priority SPFC levee deferred maintenance projects from DWR's list, which the department indicates has total associated costs of over \$600 million.



Flood Management

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- **American River Common Features (ARCF) Project (\$67 Million).** The 2018 federal budget authorized funding for the U.S. Army Corps of Engineers to undertake the \$1.8 billion ARCF Project, consisting of a number of levee improvement, erosion control, and flood bypass widening efforts. The budget proposes \$67 million from the General Fund in 2021-22 and an additional \$158 million over the following three years for the state's remaining share of costs for this large federal project in the Sacramento region.
- **Continuation of Existing Flood Programs (\$40 Million).** The budget also includes a total of \$40 million in new appropriations, primarily from Propositions 1 and 68, to continue various other flood-related programs and projects related to (1) risk management studies, (2) emergency preparedness, (3) a San Joaquin basin risk assessment, and (4) the Lower Yolo Bypass project. In most cases, these would fund additional rounds of grants or extend existing state-level initiatives and projects.

Assessment

Proposals Would Help Mitigate Potential Damage. Taking steps now to mitigate existing flood risk—as well as the increasing hazards expected to result from climate change—could prevent both significant and costly damage as well as threats to public safety in future years.

Focus on Central Valley and Delta Reflects Important State Priorities. Nearly all of the Governor's flood proposals focus on the Central Valley and the Delta. This makes sense because the state has particular responsibility for maintaining levees along the SPFC, and the reliability of Delta levees is essential for the continued operation of statewide water conveyance systems.

- **Some Funding for Other Areas of the State.** Because flood risk also exists outside of the Central Valley, the Governor's proposal includes \$29 million for floodplain risk management studies and grants in other areas of the state.



Flood Management

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State Funding for ARCF Project Would Leverage Significant Additional Funding. The proposed funding would draw down roughly \$1.3 billion in federal and local funds and allow for completion of this project. Failing to provide this funding likely would nullify the federal commitment to fund and undertake the project, leaving the region at a heightened risk of flooding.

- ***Significantly Increases Flood Protection in High-Risk, Heavily Populated Capitol Region.*** The project would help protect 514,000 people and over \$55 billion dollars worth of infrastructure and assets.

Recommendation

Approve Flood Management Proposals. We find that the Governor's package of flood proposals likely would protect public safety, mitigate future damage, and leverage significant federal funds. Moreover, his proposed approach of focusing most of the funding on the Central Valley has merit, as this is where flood risk and state responsibility are most significant. As such, we recommend the Legislature adopt the Governor's package of flood management proposals.



Sustainable Groundwater Management Act

Background

State Passed Major Legislation to Regulate Groundwater in 2014.

The three laws that make up SGMA—Chapters 346 (SB 1168, Pavley), 347 (AB 1739, Dickinson), and 348 (SB 1319, Pavley)—were enacted with the goal of achieving long-term groundwater resource sustainability. SGMA represents California’s first comprehensive statewide requirement to monitor and operate groundwater basins to avoid depletion.

Requirements Apply to Certain Basins. SGMA’s requirements apply to 94 of the state’s 515 groundwater basins that DWR found to be “high and medium priority” based on various factors, including overlying population, irrigated acreage, number of wells, and reliance on groundwater.

- ***Applies Where Most Groundwater Is Pumped.*** The 94 high- and medium-priority basins account for 98 percent of California’s annual groundwater pumping.
- ***Groundwater Use in Some Basins Is Critically Out of Balance.*** DWR has identified 21 of the basins to which SGMA applies as being “critically overdrafted” (COD), meaning a continuation of current practices likely would result in significant adverse impacts.

Requires Development of Sustainability Plans. Local groundwater sustainability agencies (GSAs)—formed by a single or combination of local public agencies with existing water or land management duties—are responsible for developing and implementing long-term groundwater sustainability plans (GSPs).

- ***Plans Define How Basins Will Achieve Sustainability.*** GSPs must define specific guidelines and practices to govern the use of individual groundwater basins—including both extraction and replenishment—to sustainable levels such that undesirable results are avoided. Such results include subsidence and wells going dry.
- ***Local Agencies Developing and Beginning to Implement Management Plans.*** GSAs representing 19 of the 21 COD basins submitted GSPs or approved alternative plans to DWR in January 2020 and are beginning to implement strategies to manage their



Sustainable Groundwater Management Act

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basins sustainably. (Two of the COD basins are involved in court adjudications to manage their basins instead of SGMA and did not submit GSPs.) The remaining high- and medium-priority GSAs must submit and begin to implement GSPs by January 2022.

- **Implementation Over Next Couple Decades.** COD basins must achieve the sustainability goals articulated in their GSPs by 2040, and other high- and medium-priority basins must do so by 2042.

State Has Provided Significant Funding to Support SGMA-Related Activities in Recent Years. In addition to funding for DWR staff to provide technical assistance and oversight, previous budgets have appropriated \$140 million from Propositions 1 and 68 for grants to aid GSAs in *developing* GSPs, and \$88 million from Proposition 68 to begin *implementing* their plans.

- **Much of the Grant Funding Has Been Awarded.** DWR has allocated all of the Proposition 1 planning grant funding, and plans to award \$26 million for COD basins to implement their GSPs via a competitive grant program in May 2021. The remaining \$62 million in Proposition 68 implementation funds—plus an additional \$10 million from Proposition 68 that the Legislature has not yet appropriated—is being reserved for non-COD basins in future years.

Governor’s Proposal

Additional Grant Funding to Implement SGMA Plans (\$60 Million). The budget proposes to allocate \$30 million in early action in 2020-21 and \$30 million in 2021-22—both allocations from the General Fund—as part of its “Sustainable Agriculture” package.

- **Funds COD Basins.** The funding would be allocated to the 19 COD groundwater basins that have submitted initial plans to DWR for review.
- **Allocates Through Competitive Grant Program.** DWR would use the proposed funds for grants to implement GSP-specified actions intended to help bring groundwater use to more sustainable levels, such as groundwater recharge projects. The department would allocate the funds through its existing Proposition 68-funded SGMA implementation grant program.



Sustainable Groundwater Management Act

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Assessment

Proposal Addresses Important State Priority. COD basins face the double challenge of experiencing the most severe imbalance between groundwater usage and available groundwater resources, as well as the most expedited SGMA time lines to begin addressing that imbalance. Additional funding could help facilitate success in these initial phases of SGMA implementation.

Allocation Approach Makes Sense. The proposed approach of allocating funding through the existing Proposition 68-funded competitive grant program—rather than developing a new program—would minimize administrative hurdles and help to ensure that proposed projects are assessed using a transparent selection approach consistent with the priorities in the SGMA legislation.

No Compelling Rationale for Early Action. It is unclear why expediting appropriation of half the funding by a few months is essential, given these are not emergency projects and the first round of Proposition 68 funding is still in the process of being awarded.

Splitting Funding Adds Unnecessary Administrative Complexity. Allocating the proposed funding in two additional grant solicitations of \$30 million—compared to one solicitation of \$60 million—would add administrative complexity for the department and applicants.

Recommendation

Adopt Full \$60 Million in the 2021-22 Budget. We recommend that the Legislature provide additional financial assistance to GSAs to help ensure effective implementation of SGMA, but minimize administrative complexity by appropriating all the funds in the budget year for one consolidated grant program rather than providing half of the requested funds through early action in the current year as proposed by the Governor.

