

The 2022-23 Budget:

# Water and Drought Response Proposals

## Summary

**Governor Provides \$880 Million to Continue Current Year's Water Resilience Package and Additional \$750 Million for Drought Response.** The 2021-22 budget package included an agreement to provide \$4.6 billion across three years for water activities, including \$3.3 billion in the current year. Consistent with that agreement, the Governor's 2022-23 budget includes \$880 million in General Fund for 11 programs. The Governor also proposes an additional \$750 million in General Fund for what he characterizes as drought response activities. Of these funds, \$500 million would be for specified activities—including \$200 million for water conservation efforts and \$65 million for activities that would address immediate drought conditions—whereas the Governor has not yet specified uses for \$250 million.

**Addressing State's Longer-Term Ability to Respond to Droughts Has Merit, but Legislature Recently Made Significant Investments in Building Water Resilience.** While the Governor has presented his \$750 million package as being for drought response, most of the proposed activities would not address conditions this summer and fall. Moreover, it remains too early to know whether the state will again experience severe drought conditions this year. While building drought resilience is an important statewide priority, given its recent investments, the Legislature does not need to approve the Governor's proposals in order to make progress towards this goal. The Legislature's recent budget decisions have already ensured that the state has a significantly expanded focus on enhancing water supply, addressing fish and wildlife needs, responding to drinking water shortages and contamination, and managing lands for multiple benefits.

**Recommend Legislature Develop Funding Approach Focused on Highest Priority, Most Cost-Effective Activities.** While improving longer-term statewide drought resilience has merit, we recommend the Legislature weigh this goal against its other budget priorities, given its recent large investments in similar activities. If allocating additional funding for improving water and drought resilience is a legislative priority in 2022-23, we recommend modifying the Governor's proposal to fund the mix of programs the Legislature deems to be the highest priority and most cost-effective for achieving its goals. For example, this could include less emphasis on funding for water conservation or comparatively more funding for groundwater recharge and storage projects. Considering how the various proposals affect the state appropriations limit calculation will also be an important factor in the Legislature's final decisions. Given the uncertainty about how the state's hydrology and conditions will evolve, we recommend waiting until the May Revision to determine how much funding to allocate for urgent drought response activities. Finally, given both the important state goal of increasing water resilience and the magnitude of recent investments, we recommend both near-term and ongoing legislative oversight of funding from the recent Drought and Water Resilience package.

## BACKGROUND

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### ***Climate Change Already Affecting California’s Hydrology and Infrastructure.***

Scientists have found that the state will experience increasingly variable precipitation under a changing climate, leading to more frequent and intense droughts and floods. Along with higher temperatures and interspersed among longer lasting dry periods, climate change is also bringing more episodic, intense, warmer atmospheric river storms to the state. These types of storms can result in significant amounts of precipitation falling in short periods of time, and as rain rather than snow. Compared to historical precipitation patterns—which traditionally built up a snowpack that gradually melted into the state’s reservoirs and rivers over the course of months—these “flashy” wet storms can challenge the capacity of both existing flood control systems and water storage infrastructure by sending significant amounts of water through the state’s streets, streams, and rivers all at once.

### ***State Has Been Experiencing Severe Drought Conditions.***

Last year was notable in terms of both its lack of precipitation and its high temperatures. Specifically, 2021 was the third driest year on record in terms of precipitation, and had the second lowest measured annual runoff (the amount of water that melted from snowpack and flowed into the state’s rivers and reservoirs). Moreover, average summer temperatures in California were the hottest on record in 2021, breaking the previous June-through-August record set in 2017. These factors, combined with the preceding dry and warm year, led to very severe drought conditions in the summer and fall of 2021. Impacts included domestic wells going dry, reductions in available water for agriculture and certain highly affected communities, high levels of groundwater pumping that exacerbated both deficits in underground basins and land subsidence, and impaired conditions and higher mortality for fish and wildlife. The Governor issued drought-related emergency proclamations that cover every county in the state—and still are in effect as of this writing—and called on Californians to voluntarily reduce their water use by 15 percent.

### ***2021-22 Budget Package Included***

#### ***Agreement for \$4.6 Billion Across Three Years for Water Activities.***

In response to these trends and conditions, the state provided a significant investment in water-related activities in the current-year budget. As displayed in **Figure 1**, the budget included \$3.3 billion for water- and drought-related activities in 2021-22, primarily from the General Fund, spread across numerous departments and activities. (The totals shown in the figure do not include funding approved by the Legislature for water-related activities outside of the Drought and Water Resilience packages approved in July and September 2021.) As shown, a total of \$137 million was for activities intended to respond to emergency drought conditions over the coming year, such as for the State Water Resources Control Board (SWRCB) and California Department of Fish and Wildlife (CDFW) to oversee and enforce regulatory restrictions on water diversions and fishing in certain streams. In contrast, some of the activities—such as grants for water supply and ecosystem restoration projects—are intended to increase the state’s resilience to unpredictable changes to water availability in the future, and likely will take multiple years to complete. Administering departments are still in the process of allocating this funding. As shown in the figure, the budget agreement between the Legislature and Governor also intends to provide an additional \$1.4 billion—\$880 million in 2022-23 and \$500 million in 2023-24—to continue some activities over the coming years.

Most of the programs included as part of this package represent activities that the state has funded and undertaken in previous years, primarily using voter-approved bonds. The significant exceptions—which represent substantively new programs initiated in 2021-22—include the Department of Conservation’s (DOC’s) multibenefit land repurposing program, SWRCB’s funding to address per- and polyfluoroalkyl substances, and the California Natural Resources Agency’s funding for water resilience projects.

Figure 1

**Recently Approved Drought and Water Resilience Package**(In Millions)<sup>a</sup>

<b>Activity</b>	<b>Department</b>	<b>2021-22</b>	<b>2022-23</b>	<b>2023-24</b>	<b>Totals</b>
<b>Water Supply and Reliability, Drinking Water, and Flood</b>		<b>\$2,676</b>	<b>\$420</b>	<b>\$220</b>	<b>\$3,316</b>
Drinking water and wastewater projects	SWRCB	\$1,300	—	—	\$1,300
Multibenefit water projects	DWR	200	—	—	200
Small community water projects	DWR	200	—	—	200
SGMA implementation	DWR	180	\$60	\$60	300
Groundwater cleanup and water recycling projects	SWRCB	150	100	100	350
Flood management	DWR	130	110	60	300
Urban water projects	DWR	100	—	—	100
Water conveyance repairs	DWR	100	100	—	200
Data, research, and communications	DWR	91	—	—	91
SWEEP	CDFA	50	50	—	100
San Diego Pure Water project	SWRCB	50	—	—	50
Multibenefit land repurposing program	DOC	50	—	—	50
Water rights modernization	SWRCB	30	—	—	30
Watershed climate studies	DWR	25	—	—	25
Aqueduct solar panel pilot study	DWR	20	—	—	20
<b>Water Quality and Ecosystem Restoration</b>		<b>\$456</b>	<b>\$460</b>	<b>\$280</b>	<b>\$1,196</b>
Water resilience projects	CNRA	\$165 <sup>b</sup>	\$100	\$180	\$445
Streamflow for the environment	WCB	100	150	—	250
Resilience projects for fish and wildlife	WCB	65	40	—	105
Salton Sea	DWR	40	100	80	220
Funding to address PFAs contamination	SWRCB	30	50	20	100
Urban rivers and streams	Various	30	20	—	50
Water quality improvements for border rivers	SWRCB	20	—	—	20
Clear Lake rehabilitation	CNRA	6	—	—	6
<b>Immediate Drought Response</b>		<b>\$137</b>	<b>—</b>	<b>—</b>	<b>\$137</b>
Drought support for fish and wildlife	CDFW	\$33	—	—	\$33
Drought emergency response	Various	25	—	—	25
Drought permitting compliance and enforcement	SWRCB	18 <sup>c</sup>	—	—	18
Drought permitting compliance and enforcement	CDFW	8	—	—	18
Drinking water emergencies	SWRCB	12	—	—	12
Drought technical assistance	DWR	10 <sup>d</sup>	—	—	10
Salinity barrier	DWR	10	—	—	10
Data, research, and communications	Various	6	—	—	6
Agriculture technical assistance	CDFA	5	—	—	5
<b>Totals</b>		<b>\$3,269</b>	<b>\$880</b>	<b>\$500</b>	<b>\$4,649</b>

<sup>a</sup> All from the General Fund unless otherwise noted. Does not include funding approved by the Legislature for water-related activities outside of the Drought and Water Resilience packages approved in July and September 2021.

<sup>b</sup> Includes \$125 million from Proposition 68.

<sup>c</sup> Includes \$2 million from the Safe Drinking Water Account.

<sup>d</sup> Includes \$7 million from Proposition 1.

SWRCB = State Water Resources Control Board; DWR = Department of Water Resources; SGMA = Sustainable Groundwater Management Act; SWEEP = State Water Efficiency and Enhancement Program; DOC = Department of Conservation; CNRA = California Natural Resources Agency; WCB = Wildlife Conservation Board; PFAs = per- and polyfluoroalkyl substances; CDFW = California Department of Fish and Wildlife; and CDFA = California Department of Food and Agriculture.

**2020-21 Budget Package Also Included**

**Additional Funding to Improve Conditions for Fish and Wildlife.** In addition to the funding shown in the above figure, a separate Climate Resilience funding package adopted as part of the 2021-22 budget agreement also contained funding for some water- and ecosystem-related activities. This includes \$15 million in 2021-22 and \$35 million in 2022-23 for CDFW to address climate change impacts on wildlife, such as by implementing projects that address degrading water and habitat conditions. That package also includes \$353 million over three years for the Wildlife Conservation Board to allocate grants for projects that protect fish and wildlife from changing conditions.

**State Will Also Receive New Federal Funding for Water-Related Activities.** In addition to the \$1.3 billion from the General Fund the state provided in the 2021-22 budget for drinking water and wastewater projects as part of the package shown in Figure 1, California expects to receive about \$3.8 billion over five years from the federal Infrastructure Investment and Jobs Act (IIJA) to improve local water infrastructure. About \$1.9 billion of these funds will be administered by SWRCB through its existing State Revolving Fund (SRF) programs for drinking water and wastewater systems, which provide loans and non-repayable financing to local governments, water agencies, and tribal governments for planning, design, and

construction of capital projects. An additional \$1.8 billion over five years will also be available through the SRF programs for specific water quality efforts to address emerging contaminants and replace lead service lines. In recent years, the SRF programs have received roughly \$210 million in federal funds annually, so the IIJA funding represents a significant increase. The U.S. government requires that states provide funding to “match” the federal funds, typically 20 cents to each dollar received. Historically, California has used water bond funds or contributions from SRF recipients to meet this match requirement for federal SRF funds.

**Despite Receiving Some Large Storms, State Still Experiencing Drought Conditions.**

Fortunately, the state received some significant storms in late 2021 which helped begin to remediate extremely low levels in reservoirs across the state, build snowpack for potential spring runoff, and improve conditions for fish and wildlife. Given the significant deficits that accumulated in 2020 and 2021, however, as of this writing, most of the state is still experiencing moderate to severe drought conditions. Moreover, this past January was exceptionally dry, particularly in the southern half of the state. Nearly all of the state’s large reservoirs remain below their historical average levels of water in storage for this time of year.

## PROPOSAL

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**Provides \$880 Million Consistent With**

**Legislative Agreement.** In alignment with what was agreed upon as part of the 2021-22 budget package, the Governor’s proposal includes \$880 million from the General Fund for several water-related efforts. As shown in Figure 1, this includes \$420 million for water supply reliability and flood activities and \$460 million for water quality and ecosystem restoration efforts. All 11 of the funded activities are continuations of programs that were also funded in the current year.

**Provides Additional \$500 Million for Drought Response Activities, Sets Aside Additional**

**\$250 Million for Potential Needs.** In addition to the \$880 million, the Governor proposes providing \$750 million from the General Fund for what he characterizes as drought response activities. We display the proposed activities in [Figure 2](#). As shown, the funded activities would span four categories, with the Governor not yet specifying the uses for a portion of the proposed funding.

The activities include:

- \$200 million for water conservation efforts such as grants to local agencies, grants for replacing turf with more drought-tolerant plants, and the State Water Efficiency and Enhancement Program (SWEET), which provides grants to farming operations to replace irrigation systems with more water- and energy-efficient equipment.
- \$150 million for water storage and reliability efforts, including for urban and small community water agencies to upgrade their infrastructure, and for groundwater recharge projects related to implementing the requirements of the 2014 Sustainable Groundwater Management Act (SGMA).
- \$85 million for improving lands management and fish and wildlife habitat, including DOC's new program initiated in the 2021-22 budget to repurpose agricultural land to reduce reliance on groundwater.
- \$65 million for activities that would address immediate drought conditions, such as assisting fish and wildlife and for drinking water shortages.
- \$250 million for which the Governor has not yet specified uses. The administration plans to come back to the Legislature with a more detailed proposal for these funds later in the spring budget process after the hydrologic conditions for the coming year become more clear.

Figure 2

## **Governor's Proposed Drought Response Activities**

2022-23, General Fund (In Millions)

Activity	Department	Proposal
<b>Water Conservation</b>		<b>\$200</b>
Urban grants and projects	DWR	\$75
Turf replacement grants	DWR	75
Small community grants and projects	DWR	25
SWEET	CDFA	20
Data collection and technical assistance	DWR	5
<b>Water Storage and Reliability</b>		<b>\$150</b>
Small community water projects	DWR	\$60
Urban community water projects	DWR	60
SGMA groundwater recharge projects	DWR	30
<b>Lands Management and Habitat Enhancement</b>		<b>\$85</b>
Multibenefit land repurposing program	DOC	\$40
Projects to enhance habitat	CDFW	30
Enhance habitat on state and partner lands	CDFW	15
<b>Immediate Drought Response</b>		<b>\$65</b>
Drinking water emergencies	SWRCB	\$25
Drought support for fish and wildlife	CDFW	17
Fish hatchery upgrades	CDFW	13
Drought technical assistance	DWR	5
Relief for small farmers	CDFA	5
<b>Unallocated Drought Funding</b>		<b>\$250</b>
<b>Total</b>		<b>\$750</b>

DWR = Department of Water Resources; SWEET = State Water Efficiency and Enhancement Program; CDFA = California Department of Food and Agriculture; SGMA = Sustainable Groundwater Management Act; DOC = Department of Conservation; CDFW = California Department of Fish and Wildlife; and SWRCB = State Water Resources Control Board.

### **Federal Funds Anticipated for 2022, but**

**Will Not Flow Through State Budget.** While the state expects to receive some IIJA funds for the aforementioned water and wastewater activities in the budget year, these funds are not included in the Governor's 2022-23 budget proposal because the SRF funds are continuously appropriated. SWRCB indicates it has sufficient appropriated funds—such as General Fund and bond funds—available to use for the required state match in the budget year. SWRCB estimates California will begin to receive its 2022 allotments of roughly \$650 million from the federal government in early fall.

# ASSESSMENT

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## ***State and Local Agencies Busy Implementing***

**Significant 2021-22 Investments.** As noted earlier, the 2021-22 water and climate budget packages included significant levels of funding for water-related activities in the current year, along with additional funding committed for 2022-23 and 2023-24. State and local agencies likely will be busy administering and implementing recently funded activities both in the budget year as well as in the coming years. As such, the Legislature will want to be mindful that state and local agencies likely will have limitations on their capacity to oversee and expend significant amounts of new funding in the budget year. Providing additional funding for a few targeted efforts—similar in scope to what the Governor proposes—likely could be accommodated, but agencies probably would not be able to implement major new or expanded programs promptly.

## ***Possible That Drought Conditions Will Abate in Coming Year, Reducing Need for \$250 Million.***

It remains too early to know whether the state will again experience severe drought conditions this summer and fall. The need for new spending on urgent drought response activities in 2022-23 largely will depend on the amount of precipitation the state receives in February, March, and April, as well as the degree to which temperatures this spring and summer impact snowpack runoff. By the May Revision, the Legislature should know more about potential drought conditions and what additional near-term activities might be needed. The Governor’s proposed \$250 million “contingency” funding could be appropriate to address urgent needs, but a lesser or greater amount may end up being warranted instead. Similarly, the proposed \$65 million for immediate drought response activities could be justified, insufficient, or excessive, depending on how conditions develop.

## ***Most Proposed Activities Address Longer-Term Resilience to Drought, Not Near-Term Conditions.***

**While the Governor has presented his \$750 million package as being for drought response, most of the proposed activities would not address conditions this summer and fall.**

This is because the majority of the activities would not result in an immediate increase in water supply or reduction in water use, or respond to emergency needs. Of the \$500 million in proposed expenditures, \$65 million is clearly focused on remediating urgent needs. This would include activities such as providing emergency drinking water for households with dry domestic wells, rescuing stranded fish and wildlife, and providing financial assistance to highly impacted small farmers. In contrast, the majority of the proposed activities would focus on longer-term efforts that might improve the state’s and local communities’ abilities to respond to *future* droughts. Specifically, both the infrastructure projects that would be funded in urban and small communities, as well as many of the water conservation initiatives and habitat improvement projects, likely would take at least a year and perhaps multiple years to implement. This is particularly true in cases where grant application processes, environmental permitting, and/or construction are required.

***Addressing State’s Longer-Term Ability to Respond to Droughts Has Merit...*** Even if most of his proposals would not provide immediate drought relief, the Governor’s focus on longer-term drought resilience is not without value. California has received lower-than-average precipitation levels in 10 of the last 15 years, and the changing climate will bring increasingly frequent and severe droughts. The best time to address water shortages is *before* they occur, as the most effective water supply, infrastructure upgrade, and habitat enhancement projects generally take significant time to plan and implement. Taking steps to increase the state’s level of preparation for droughts is a worthwhile priority for the state.

## ***...But Legislature Recently Made Significant Investments in Building Water Resilience.***

While building drought resilience is an important statewide priority, given its recent investments, the Legislature does not need to approve the Governor’s proposals in order to make progress towards this goal. With its recent budget decisions, the Legislature has already ensured that the state has a significantly expanded focus on enhancing

water supply, addressing fish and wildlife needs, responding to drinking water shortages and contamination, and managing lands for multiple benefits. As discussed above, the current-year budget package committed \$3.3 billion for such activities in 2021-22, as well as an additional \$880 million in 2022-23 (as reflected in the Governor's proposed budget). This is in addition to even more funding from the Climate Resilience funding package, which includes 2022-23 funding for CDFW to undertake similar activities as those proposed in the Governor's new proposal. We also note that local agencies have rate-payer funds available to use for local projects such as infrastructure repair or water conservation initiatives should they have projects ready to implement.

#### ***Water Storage Component of Proposal Is Relatively Modest.***

As shown in Figure 2, the Governor dedicates only \$30 million from his new proposal for water storage projects. These funds would be used for groundwater recharge projects related to implementing local groundwater management plans in accordance with SGMA. In the context of the changing hydrology described above, this is not a particularly large level of spending. As warmer temperatures contribute to a lower snowpack and more prolonged dry stretches, in the coming years the state likely will want to increase its ability to capture and store water that falls from episodic wet storms when they do occur. Managed aquifer recharge projects are among the most promising emerging strategies to achieve these goals. This approach involves developing both built and natural infrastructure such as canals, flood bypasses, and designated recharge basins—including farm fields—to direct runoff and floodwaters onto land where it can percolate into the ground to be used later. In addition to potentially restoring some existing groundwater deficits (and mitigating associated negative impacts) and increasing the water supply upon which farmers and residents can draw during dry periods, such projects often have the co-benefit of reducing flood risk. As such, increasing available groundwater storage and opportunities to capture water runoff in managed aquifer recharge projects might merit additional investments beyond what the Governor proposes.

***Questionable Whether Water Conservation Is Most Effective Use of State Funding.*** The focus on water conservation is the most notable distinction between the Governor's proposed 2022-23 drought response package and the 2021-22 three-year Drought and Water Resilience Package, which did not fund such activities. However, this does not necessarily indicate that water conservation represents a high-priority unmet need for state funding, for several reasons.

First, California already has significantly reduced urban water use across the state within the past decade, with statewide average residential water use dropping by 14 percent from 108 gallons per capita per day (GPCD) in 2014 to 93 gallons GPCD in 2021. (Over the longer term, average statewide residential GPCD water use decreased by 34 percent between 1994 and 2019.) This raises questions about how much more reduction in use might be reasonable—and cost-effective—to expect.

Second, urban water use represents a relatively small share of overall applied water use in the state—only around 20 percent, compared to 80 percent used in the agricultural sector. As such, the state might achieve more impact on its overall state water supply—in terms of demand reduction or increased supply—by targeting its efforts on the agricultural sector. Of the Governor's proposed \$200 million for water conservation activities, only \$20 million is focused on improving agricultural water efficiency (the SWEEP program).

Third, the Legislature has adopted policies to help improve water conservation and better position local water agencies to withstand future dry periods, which the state is still in the process of implementing. Specifically, Chapters 14 (SB 606, Hertzberg) and 15 (AB 1668, Friedman) of 2018 included requirements that urban water agencies develop and meet new water use efficiency objectives based on their local conditions, and added new components to urban and agricultural water management planning activities. The legislation requires local agencies to meet their new water use objectives by 2027. These policy changes—combined with the local ratepayer-supported funding that local agencies have to implement them—have established incentives for urban communities to continue increasing their water conservation efforts in the coming years, even without additional state funding.

***Providing Additional Funding for Land Repurposing Program May Be Premature.***

As shown in Figure 2, the Governor proposes providing an additional \$40 million for the land repurposing program that DOC initiated with \$50 million in the current year. The goals of this program—to implement projects that reduce groundwater use, repurpose irrigated agricultural land to less water-intensive uses, and provide wildlife habitat—represent important state priorities in the context of groundwater overuse and water limitations. However, DOC still is in the process of designing this new program. The department plans to solicit grant applications in April 2022 and make grant awards in May. As such, key information about existing demand for funding, the types of projects seeking funding, and the outcomes of those projects is still unknown. While some of this information—such as about project applicants—will be available before the Legislature must make its final budget decisions, the timing still will be premature for assessing the effectiveness of the program at meeting its stated objectives. This makes it difficult for the Legislature to be able to evaluate whether providing an additional \$40 million is a worthwhile and high-priority investment for 2022-23.

***More Than Half of the Governor’s Proposed Activities Are Excluded From State Appropriations Limit (SAL).***

The California Constitution imposes a limit on the amount of revenue the state can appropriate each year. The state can exclude certain spending—such as on capital outlay projects, as well as for certain kinds of emergency spending (such as to respond to a declared emergency)—from the SAL calculation. The Department of Finance estimates that of the \$500 million in the Governor’s specified drought response proposals, \$310 million—about 60 percent—is for activities that are excludable from the SAL. This includes \$120 million for water projects in small and urban communities, \$100 million for water conservation grants and projects in small and urban communities, and \$40 million for DOC’s land repurposing program.

***Oversight of Current-Year Funding***

***Implementation Will Be Important.*** The 2021-22 budget package represents an exceptional level of one-time General Fund spending on a wide variety of water-related activities. While the state has provided funding for many of the included activities before, it largely has done so using voter-approved general obligation bonds. Such bonds generally include a significant level of statutorily required accountability measures, such as public reporting on when and how bond funds are spent, specific projects that are funded, and outcomes from those projects. Comparable reporting requirements were not included in the budget appropriations for the General Fund-supported Drought and Water Resilience Package. Moreover, the administration has significant discretion over how to design and administer the new state programs funded for the first time in 2021-22, such as the water resilience projects and land repurposing program. Given both the important state goal of increasing water resilience and the magnitude of these recent investments, taking steps to ensure the Legislature can conduct sufficient oversight of how the \$4.6 billion is spent will be important to ensure funds are being implemented in a way that effectively meets legislative goals. Such information could also inform how the Legislature may want to prioritize and shape future efforts—including in 2022-23. For instance, if departments face challenges with administrative capacity, the Legislature could consider whether additional staffing is warranted. If programs are oversubscribed, the Legislature could consider providing additional funding in the budget year or a subsequent year. Alternatively, if programs remain in the early stages of implementation, are undersubscribed, or show other signs that program modifications might be needed, then the Legislature could take steps to address those issues.

# RECOMMENDATIONS

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Our overarching recommendation regarding the Governor's \$750 million drought response package is that the Legislature's funding approach should be guided by what it believes are the highest-priority, most cost-effective efforts that do not currently have sufficient funding from the state's recent water investments.

***Revisit Need for Additional Funding for Immediate Drought Response Later in Spring Budget Process.*** Given the uncertainty about how the state's hydrology and conditions will evolve, we recommend the Legislature wait until the May Revision to determine how much funding to allocate for urgent drought response activities. This will allow the Legislature to better estimate how much funding truly is needed and which activities to target. Ultimately, the appropriate amount could be more or less than the \$65 million proposed for specific immediate drought response activities and the \$250 million set aside by the Governor.

***Consider Importance of Funding Additional Water Resilience Activities This Year, Given Large Recent Investments.*** While improving longer-term statewide drought resilience has merit, we recommend the Legislature weigh this goal against its other 2022-23 budget priorities. Given that state and local agencies are busy implementing activities supported by substantial funding provided in the current year and already will receive additional General Fund for water-related activities from the Drought and Water Resilience and Climate Resilience packages in 2022-23 (as well as new federal funds), the need for additional funding may be less pressing compared to addressing other state priorities in the budget year. We do not refute the importance of funding additional longer-term water supply, storage, and ecosystem resilience projects to improve the state's ability to weather future droughts. Rather, we suggest the Legislature carefully consider whether making added investments is essential *this year*.

***Modify Package to Reflect Legislature's Highest Priorities.*** To the extent allocating additional funding for improving water and drought resilience is a priority for the Legislature in 2022-23,

we recommend it modify the Governor's proposals to ensure it funds the mix of programs it deems to be the highest priority and most cost-effective for achieving its goals. For example, this could include less emphasis on funding for water conservation—given prior successful efforts to reduce use, the comparatively small share that urban and small communities represent of overall statewide water use, and existing statutory requirements in place to make urban water use more efficient. The Legislature could also consider a package that provides comparatively more funding for groundwater recharge and storage projects, given their potential to help increase water supply, address groundwater deficiencies, and improve flood control. The Legislature could also consider waiting to provide additional funding for DOC's land repurposing program until it has at least another year of information about program demand and outcomes.

***Consider SAL Implications.*** In constructing its final drought response package, we recommend the Legislature be mindful of SAL considerations. For example, if the Legislature were to reject or approve a lower amount of spending on the proposed water-related activities that the administration excludes from SAL, it would generally need to repurpose the associated funding for other SAL-related purposes, such as tax reductions or an alternative excluded expenditure. If the statewide drought emergency proclamation is still in effect in 2022-23, certain response activities could be exempt from the spending limit, although associated appropriations would need to be approved with a two-thirds vote of the Legislature in order to be considered SAL-excludable.

***Monitor Implementation of Water Funding.*** We recommend the Legislature conduct both near-term and ongoing oversight of how the administration is implementing—and local grantees are utilizing—funding from the Drought and Water Resilience Package. In particular, we recommend the Legislature track: (1) how the administration is prioritizing funding within newly designed programs, (2) the time lines for making funding

allocations and completing projects, (3) the levels of demand and over- or under-subscription for specific programs, (4) any barriers to implementation that departments or grantees encounter, and (5) the impacts and outcomes of funded projects. The Legislature has a number of different options for conducting such oversight, all of which could be

helpful to employ given that they would provide differing levels of detail. These include requesting that the administration report at spring budget hearings, requesting reports through supplemental reporting language, and adopting statutory reporting requirements (such as those typically included for general obligation bonds).



## LAO PUBLICATIONS

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This report was prepared by Rachel Ehlers and reviewed by Anthony Simbol. The Legislative Analyst's Office (LAO) is a nonpartisan office that provides fiscal and policy information and advice to the Legislature.

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