

Addressing Funding Gaps in California Water

Ellen Hanak

Public Policy Institute of California
Senate Joint Informational Hearing 2/26/13

PPIC



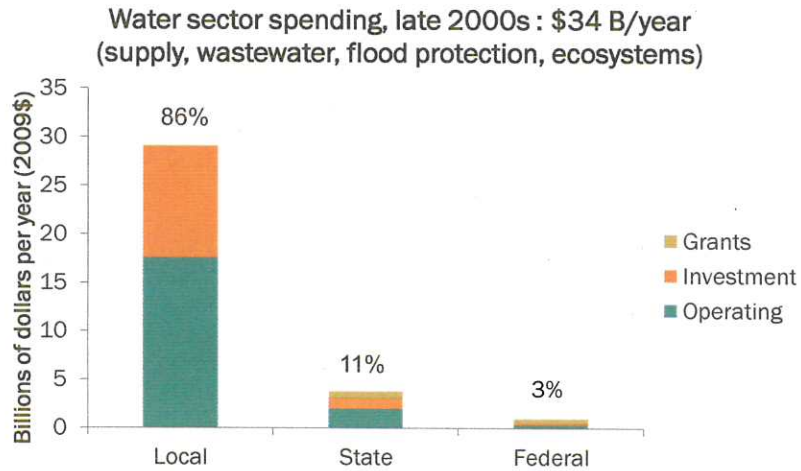
Outline

- Overview of recent water sector performance
- Potential roles of different funding sources

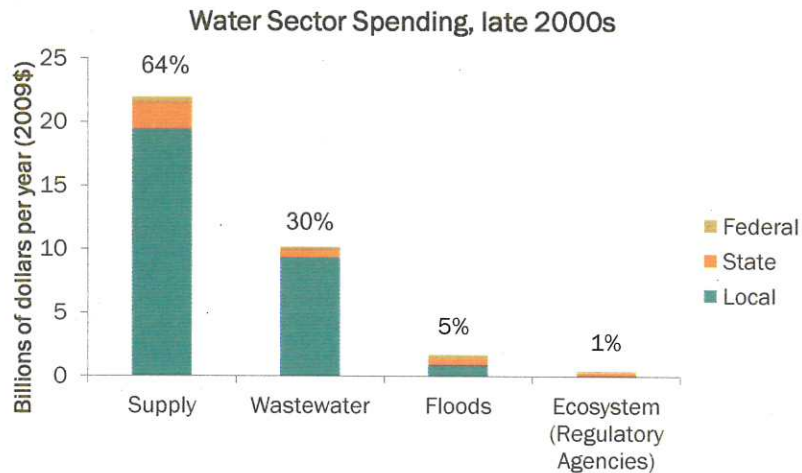
PPIC



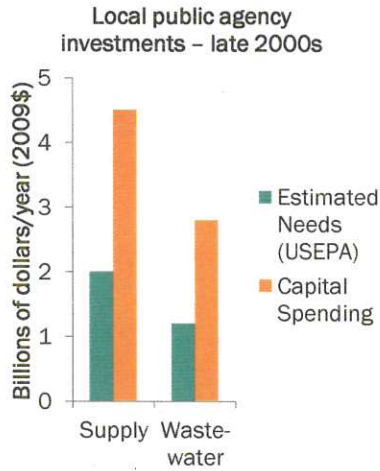
Local Agencies Do Most Spending on California Water



Water Supply, Wastewater Management Are Biggest Areas



Supply and Wastewater Agencies Generally Meeting Capital Needs



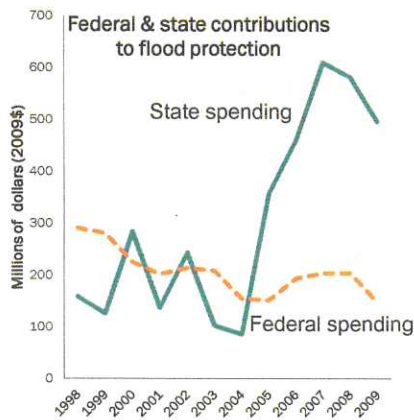
- Relatively robust system for raising resources from local ratepayers...
- ...although potential for Prop 218 challenges has agencies worried
- ...and some smaller, low-income systems face gaps

PPIC



5

Paying for Flood Protection Is a Major Challenge



- Historical dependence on high (65%) federal investment share
- But federal funds inadequate and declining
- State bonds almost gone
- Local funds hard to raise (Need Prop 218 voter approval)
- Needs vast (> \$17 B in Central Valley alone, excluding most of Delta)

PPIC



6

Other “Orphan” Areas

- Ecosystem management, including science
 - Largely GO-bond funded (unreliable)
- Statewide data, analysis, planning
 - Increasingly difficult given general fund woes
 - Reliance on bond-eligible positions (DWR)
 - Funding gaps for new agencies (Delta Stewardship Council)

PPIC



7

Report Card: Key Gaps Are in Smallest Areas

| Area | Annual spending (late 2000s) | Primary Source | Adequacy |
|---------------------------------|-------------------------------------|---|----------------|
| Water supply infrastructure | \$22 Billion | Ratepayers | Mostly OK |
| Wastewater infrastructure | \$10 Billion | Ratepayers | Mostly OK |
| Flood management infrastructure | \$1.7 Billion | Policy goals: Federal (65%) State (20-25%) Landowners (10-15%) | FAILING |
| Ecosystem management | \$0.4 Billion (regulatory agencies) | State general obligation (GO) bonds, ratepayers | FAILING |
| State planning and oversight | \$0.1 Billion | State general fund, GO bonds | FAILING |

PPIC



8

Outline

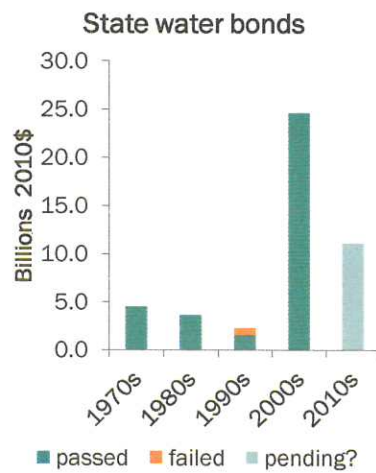
- Overview of recent water sector performance
- Potential roles of different funding sources

PPIC



9

Uncertain Future for State GO Bond Funding



- Many valuable uses
- Vital for environment and floods
- But unreliable
- And losing popularity?

PPIC



Source: Hanak et al. *Water and the California Economy* (2012)

10

When Are State GO Bonds Especially Helpful?

- Generating broad public benefits
 - Ecosystem enhancement
 - Delta a key area in SBx7-2
- Supporting public health and safety
 - Esp. environmental justice concerns
 - Helping fill federal gap on floods
- Leveraging good behavior
 - Groundwater management
 - Integrated water resources management
 - But regional fees can do this, too



11

Modern Water Management Also Needs More Fee-Based Funding

- Public goods charge (state, regional)
 - Ecosystems
 - Statewide planning and oversight
 - R&D
 - Regional incentive funds
- Special mitigation fees
 - Chemical contaminants
 - Dam removal
- Regional & local flood fees
 - E.g., proposed regional fee in Delta



12

For More Information

- *Water and the California Economy* (May 2012)
- *Managing California's Water* (Feb. 2011)
- Available for free download at www.ppic.org

PPIC



13

Notes on the use of these slides

These slides were created to accompany a presentation. They do not include full documentation of sources, data samples, methods, and interpretations. To avoid misinterpretations, please contact:

Ellen Hanak: 415-291-4433, hanak@ppic.org

Thank you for your interest in this work.

PPIC



14