

Paying for Water in California



PPIC

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An interdisciplinary study team

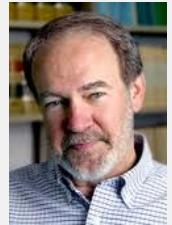
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The current drought highlights the crucial role of our water system

- California's economic, social, and environmental health all rely on a well-managed water system
- A key ingredient for success is adequate funding



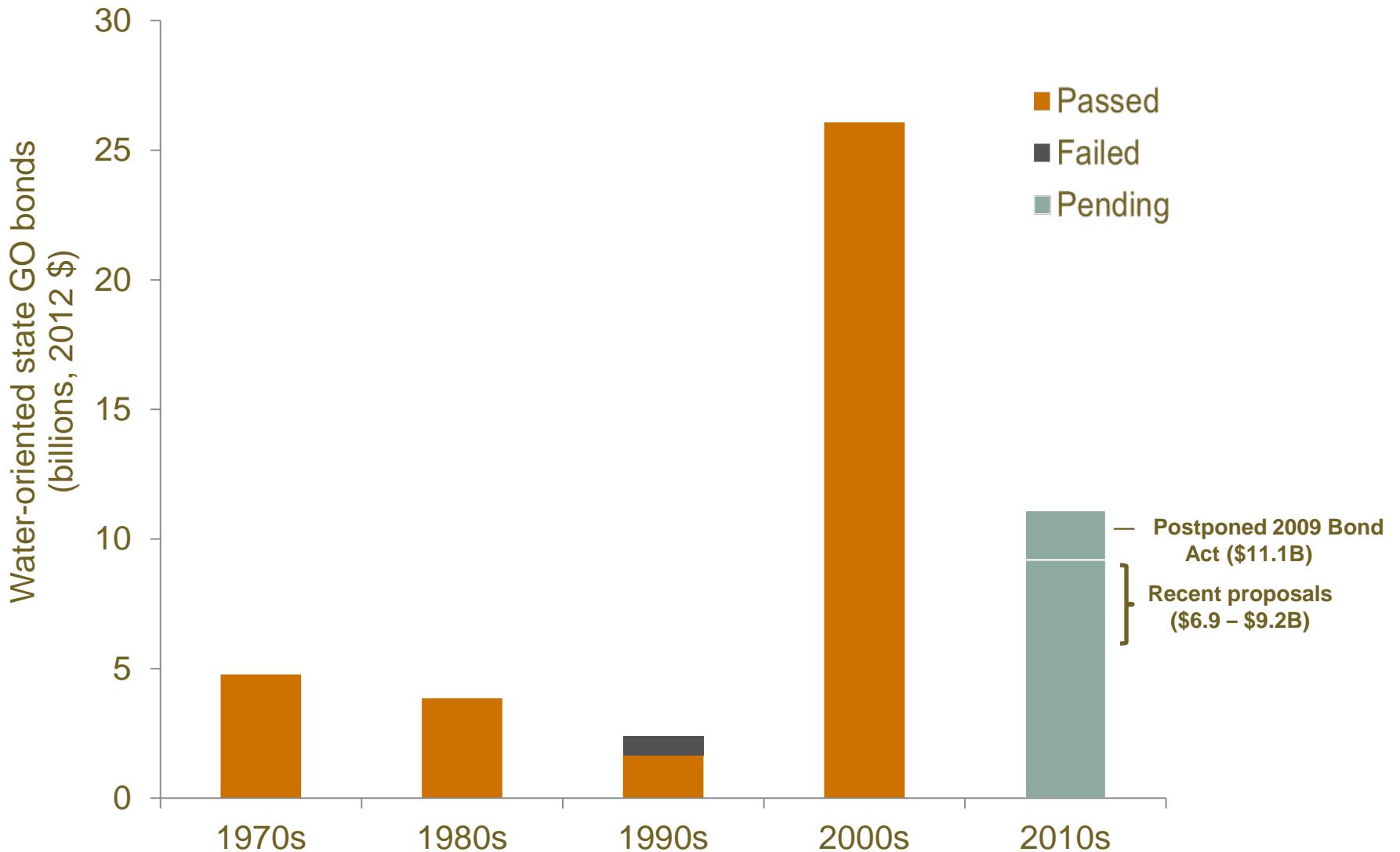
Lake Oroville, January 2014

Outline

- Current water funding sources
- Legal constraints on water funding
- The fiscal report card
- A road map to funding reform



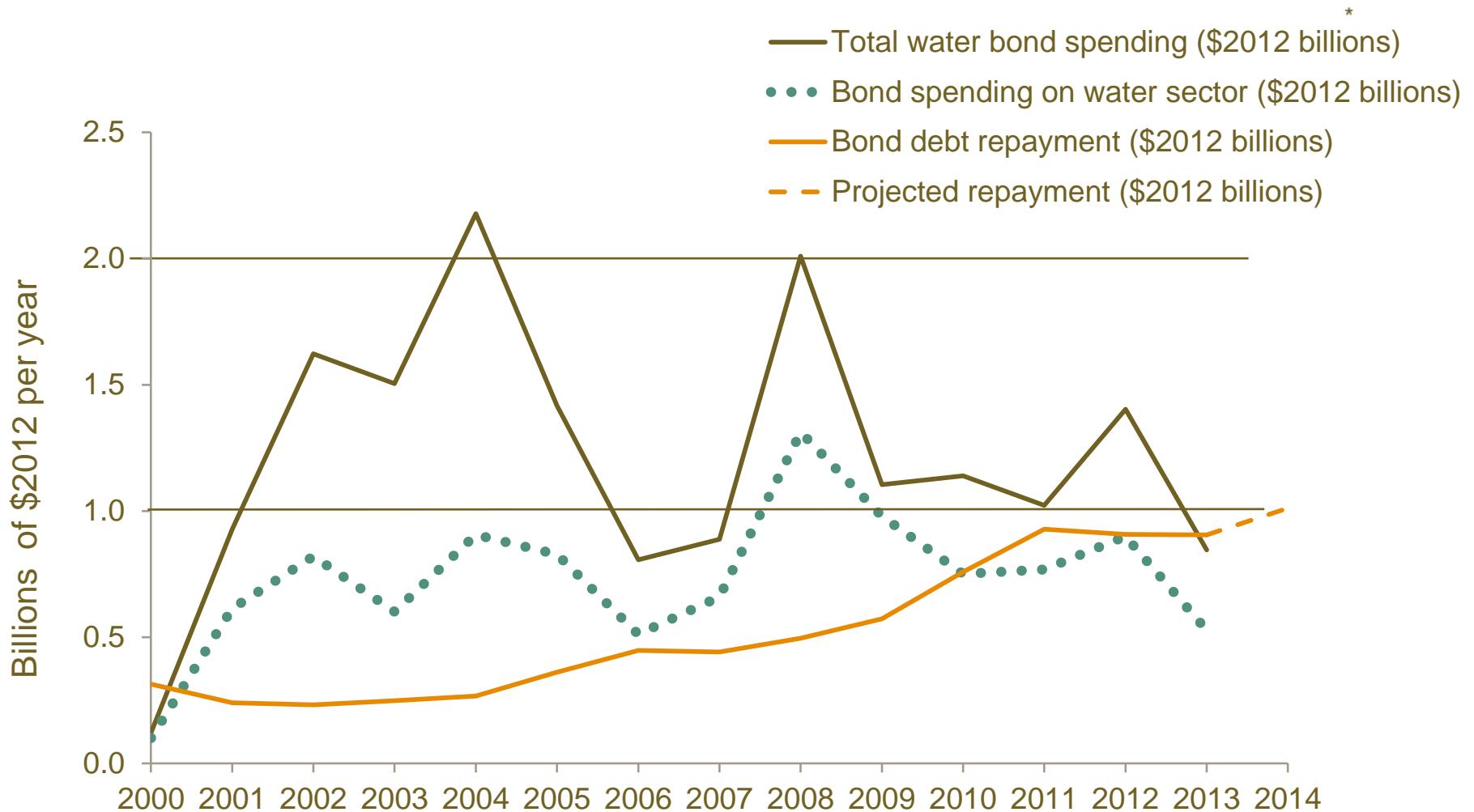
State GO water bonds have grown significantly since the early 2000s



Source: Governor's Budgets



State bonds contribute under \$1B/year to water system; debt service now as high

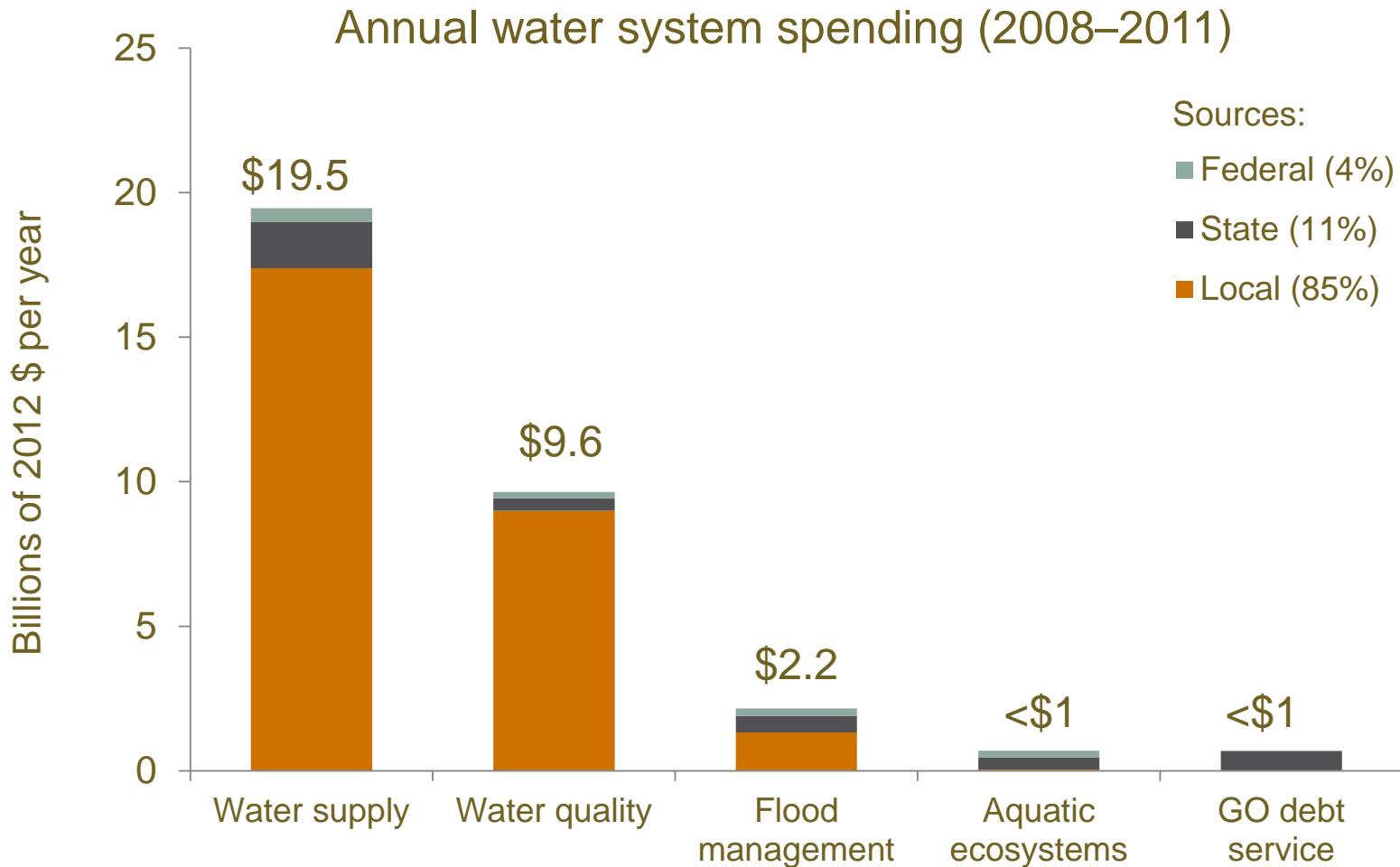


Source: Governor's Budgets

* Total bond spending includes funds for parks



Local agencies raise most of the \$30+ billion spent annually



Source: Author estimates (various sources)



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Three constitutional reforms have made it harder to pay for local water services

1978 Prop 13	1996 Prop 218	2010 Prop 26
<ul style="list-style-type: none"> • Property taxes reduced • Local special taxes require 2/3 voter approval • State taxes require 2/3 legislative approval* <p>* Ballot measures can still pass with simple majority (50%) of state voters</p>	<ul style="list-style-type: none"> • General taxes no longer available to special districts • Local property-related fees/assessments: <ol style="list-style-type: none"> 1. Property-owner protest hearings 2. Strict cost-of-service requirements 3. Floods and stormwater: new charges require 50% vote by property owners or 2/3 popular vote 	<ul style="list-style-type: none"> • Stricter requirements on local non-property related fees and state regulatory fees (more likely to be taxes) • Stricter cost-of-service requirements for wholesale agency fees

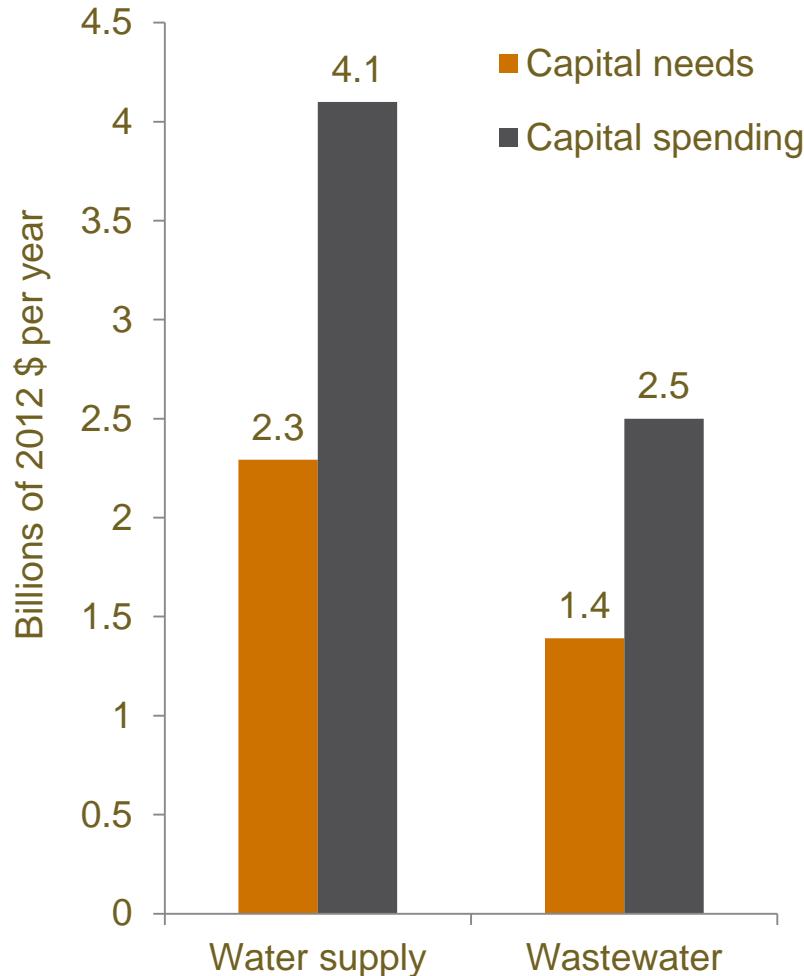


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Urban water and wastewater utilities are in relatively good fiscal health



- Usually can raise rates to meet needs
- Investments have improved urban drought-resilience
- But looming concerns:
 - Rising costs (treatment standards, aging infrastructure, Delta)
 - Legal obstacles to conservation pricing, portfolio-based management, lifeline rates

Source: Capital needs estimates from EPA Clean Drinking Water Survey (2013) and Clean Watershed survey (2008)



We face debilitating funding gaps in other areas

	Overall grade	Annual gap (\$ millions)
Water supply	Passing (mostly)	—
Wastewater	Passing (mostly)	—
Safe drinking water (small rural systems)	Failing	\$30–\$160
Flood protection	Failing	\$800–\$1,000
Stormwater management	Failing	\$500–\$800
Aquatic ecosystem management	Failing	\$400–\$700
Integrated management	On the brink	\$200–\$300

Total Annual Gap: \$2–\$3 Billion



Small, disadvantaged rural communities face special funding challenges

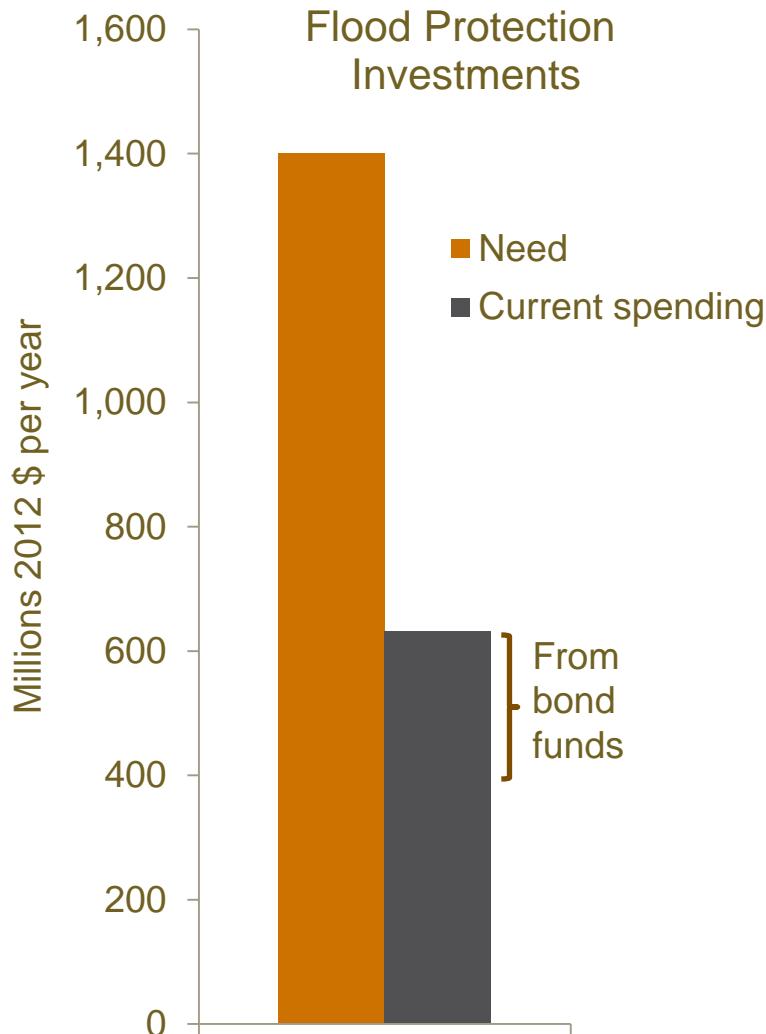
Small Systems (population <3,300) With Contaminated Wells and Health Violations



- About 0.2% to 0.4% of the state's population rely on contaminated wells
- Affordability is the key obstacle: low incomes plus high per-unit costs
- Need better access to funding and targeted support

Source: SWRCB, AB 2222 report, 2013

Despite boost from recent GO bonds, flood investments are seriously lagging



- 25% of Californians live in floodplains; 4% at extreme risk
- Floods will grow with climate change
- New voting requirements hinder local fundraising
- Biggest gaps in Central Valley
- Not all investments may be worth costs to floodplain residents

Source: DWR & USACE, Flood Futures, 2013 (need)



Stormwater management has been most hindered by constitutional reforms

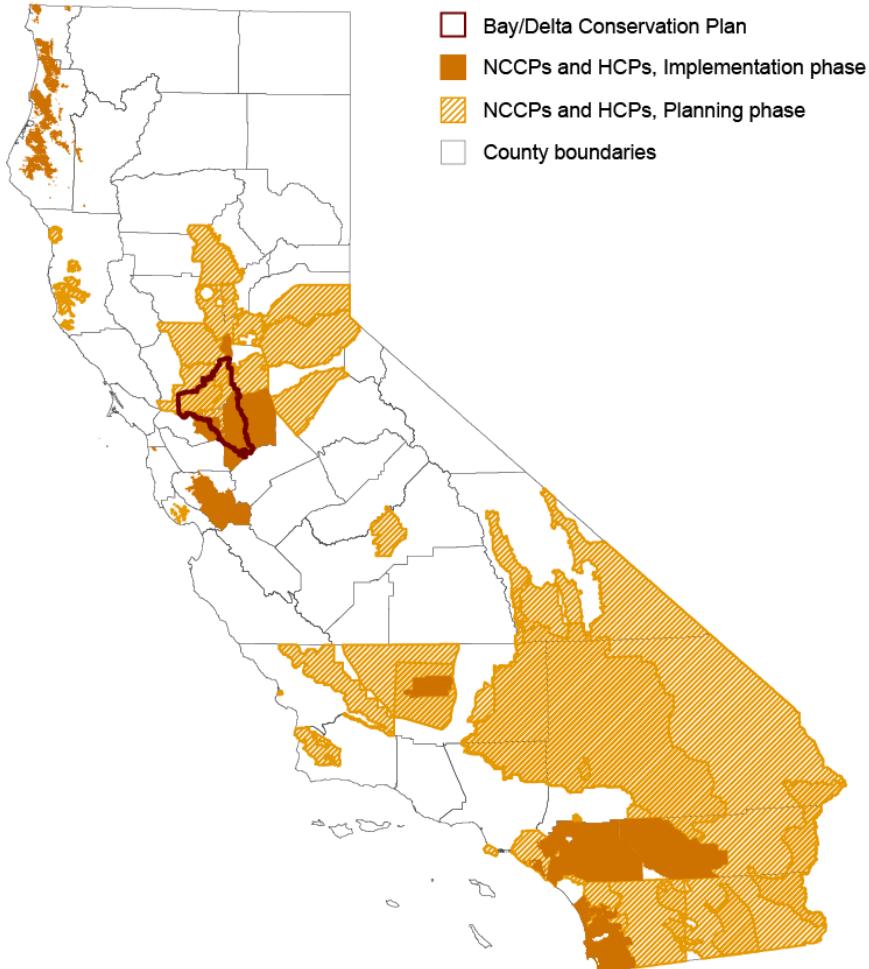


The Los Angeles River watershed is expected to reach “zero-trash”

- New and growing regulatory mandate to manage pollution, not just drainage
- Any new charge requires a vote – often at 2/3 supermajority – and beneficiaries are usually downstream
- Costs are rising as regulations get stricter

Despite increased efforts, aquatic ecosystems are still failing

Habitat conservation plans



- Considerable spending to prevent future harm, but little funding for pro-active recovery efforts
- Who should pay is a thorny issue: general public or resource users?

Integration is needed to improve performance of entire water system



Green Streets are one example of functional integration

- California's system is decentralized and siloed
- Integration should be both geographic and functional
- Funding needed to:
 - Jump-start collaborations
 - Provide technical and scientific support
- Hard to raise funds from participants (especially local stormwater agencies)

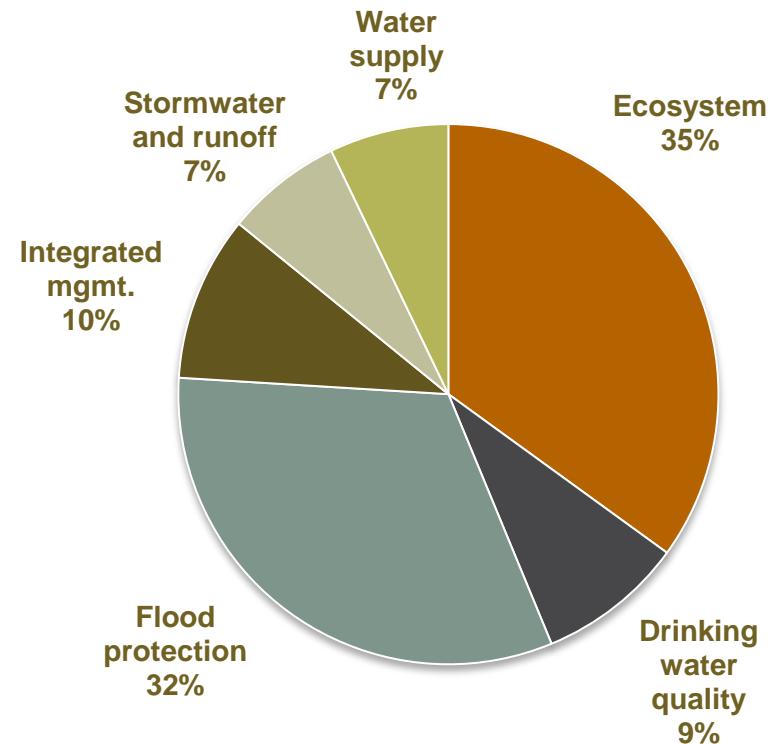
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Recent state water bonds have temporarily helped fill critical gaps

- Since 2000, \$15.3 billion authorized for water-related projects
- Most spending in gap areas
- But much room for improvement in directing these funds (e.g., for IRWM and stormwater)



Authorized water-related bond funds since 2000 (\$15.3 B)*

* An additional \$4.3 B (22%) directed to parks

Even if a new bond passes, we need a broader mix

	Safe drinking water	Floods	Stormwater	Ecosystems	Integrated management
No close connection to the activity being funded (always a tax)					
State general fund	✓	✓	✓	✓	✓
Local general fund					
Broad special taxes (state, regional, local)		✓	✓	✓	✓
Some connection to the activity being funded (fee or tax, depending on specifics)					
Water use surcharge	✓	X	✓	✓	✓
Chemicals surcharge (e.g., fertilizers, pesticides)	✓	X	✓		X
Road use surcharge (e.g., fuels, vehicle licenses)	X	X	✓		X
Hydropower surcharge	X	X	X	✓	X
A close connection to the activity being funded (always a fee)					
Property assessment or fee	X	✓	✓		X
Developer fee	X	✓	✓	✓	X

X = lack of connection

✓ = commonly used source

✓ = new (or mostly new) source



Transparency and integration are key

- Local agencies can make a better case
 - Communicate costs and needs to ratepayers
 - Integrate to boost performance and funding options
- State and federal agencies can help reduce costs
 - Get integrated
 - Improve regulatory efficiency
 - Crunch the numbers (models, data, analysis)



Legislative action should go beyond bonds

- Pass new fees and taxes
- Extend broader funding authorities to local agencies (e.g., stormwater, groundwater)
- Encourage consolidation of small systems by taking on liability for legacy contaminants
- Guide courts on interpretation of water management costs (avoid “molecular accounting”)

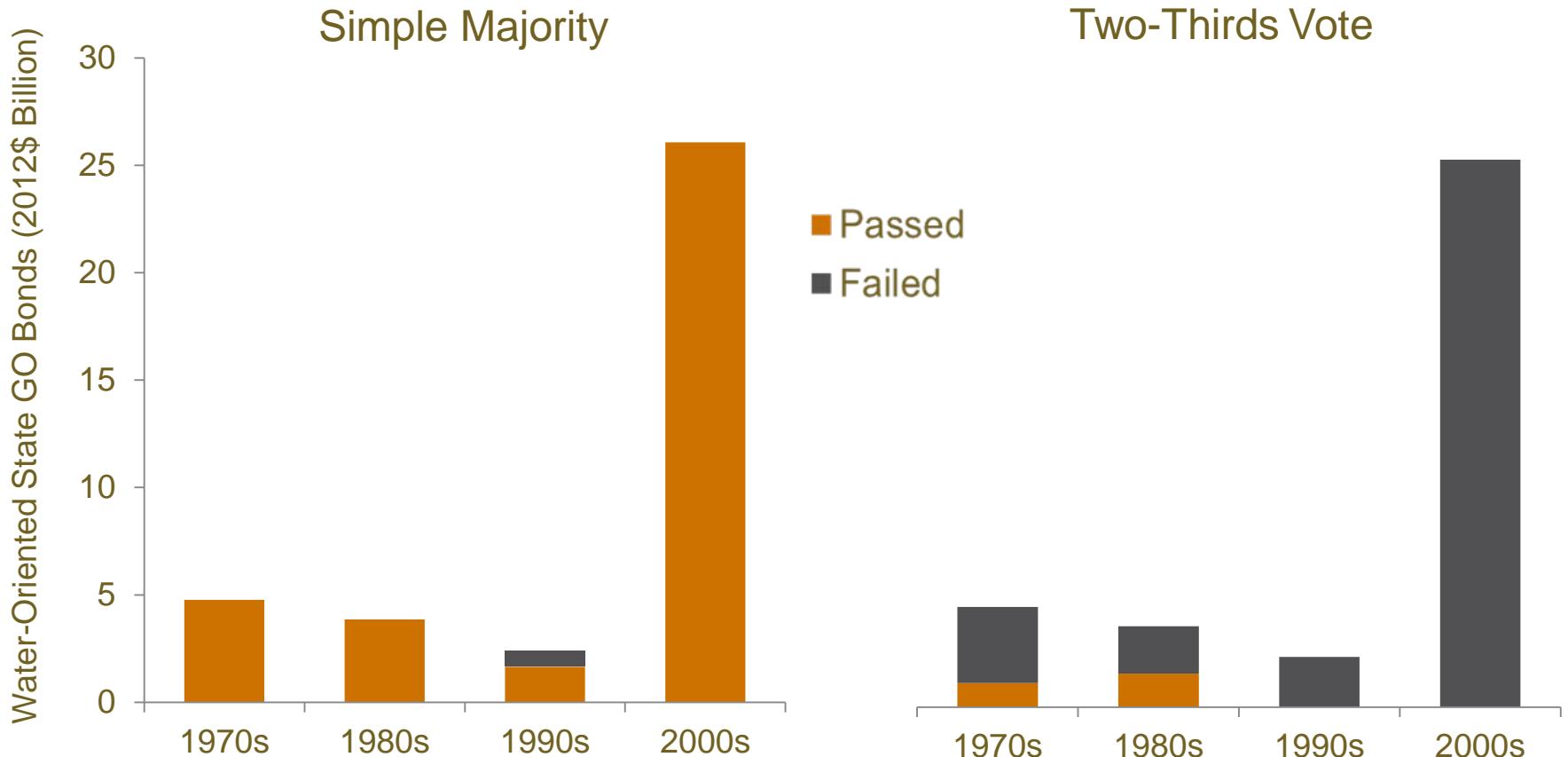


Constitutional reforms may be needed

- Allow portfolio-based water pricing
- Treat stormwater as regulatory fee
- Treat floods like water and sewer
- Allow lifeline rates
- Lower voting thresholds for special taxes

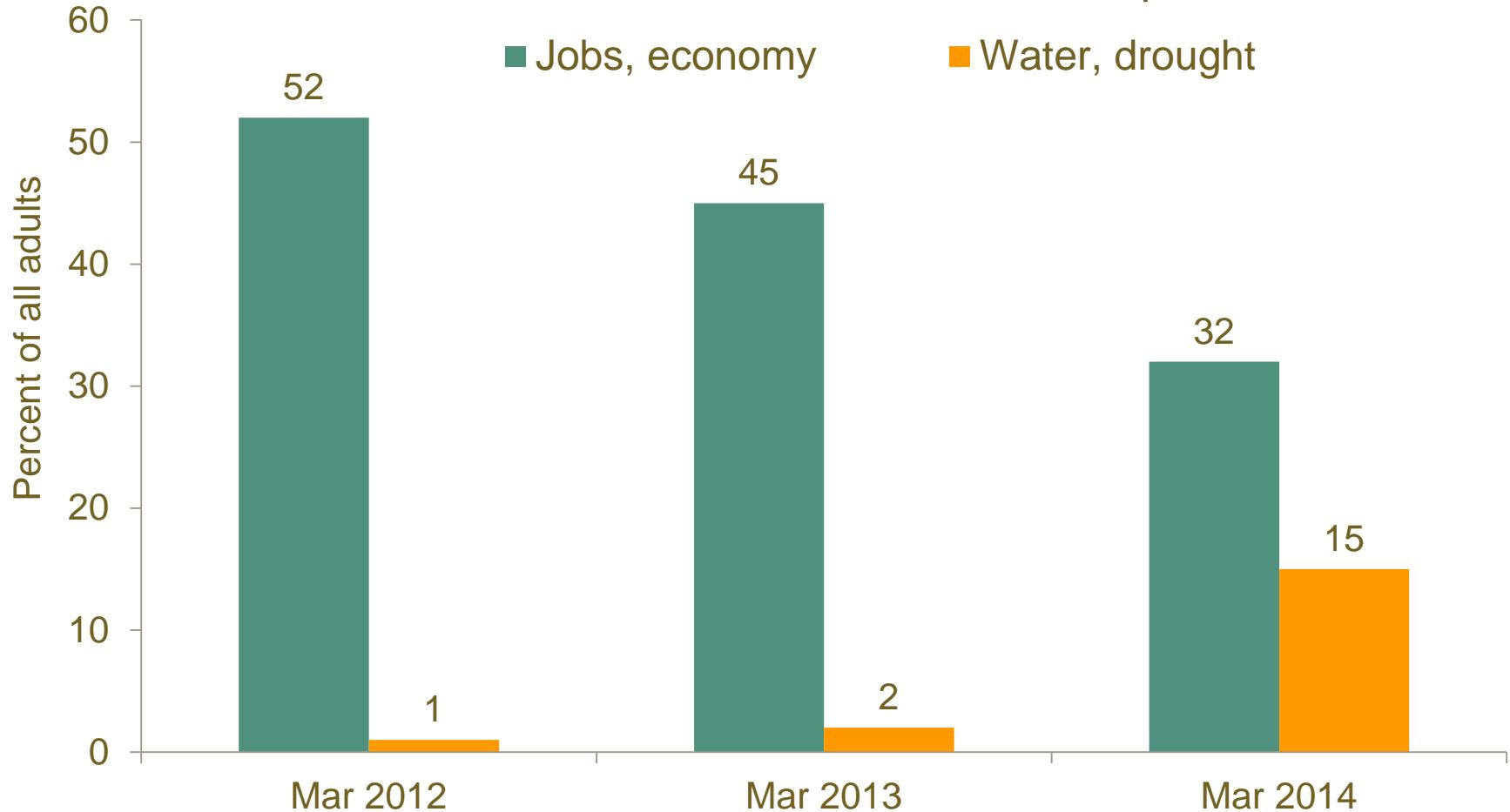


Few state water bonds would have passed at the local voting threshold



The drought opens a window for reform

What Californians see as the state's top issue:



Source: PPIC Statewide Survey: Californians and their Government



Our water challenges seem daunting, but this is a fixable problem

- About \$12 – \$20 per household monthly can fill critical gaps
- We need strong leaders to make the case to the public
- Reforming laws will ensure continued effectiveness



Thank you!

- More information is available at www.ppic.org:
- *Paying for Water in California* (main report)
- Five detailed appendices:
 - A: Legal analysis
 - B: Spending, revenues, needs
 - C: Recent water bond spending
 - D: Who pays for different funding sources
 - E: Local water-related ballot measures



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:
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- Thank you for your interest in this work.

