

Paying for Water in California

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Senate Natural Resources and Water Committee
Hearing on Underfunded Water Needs



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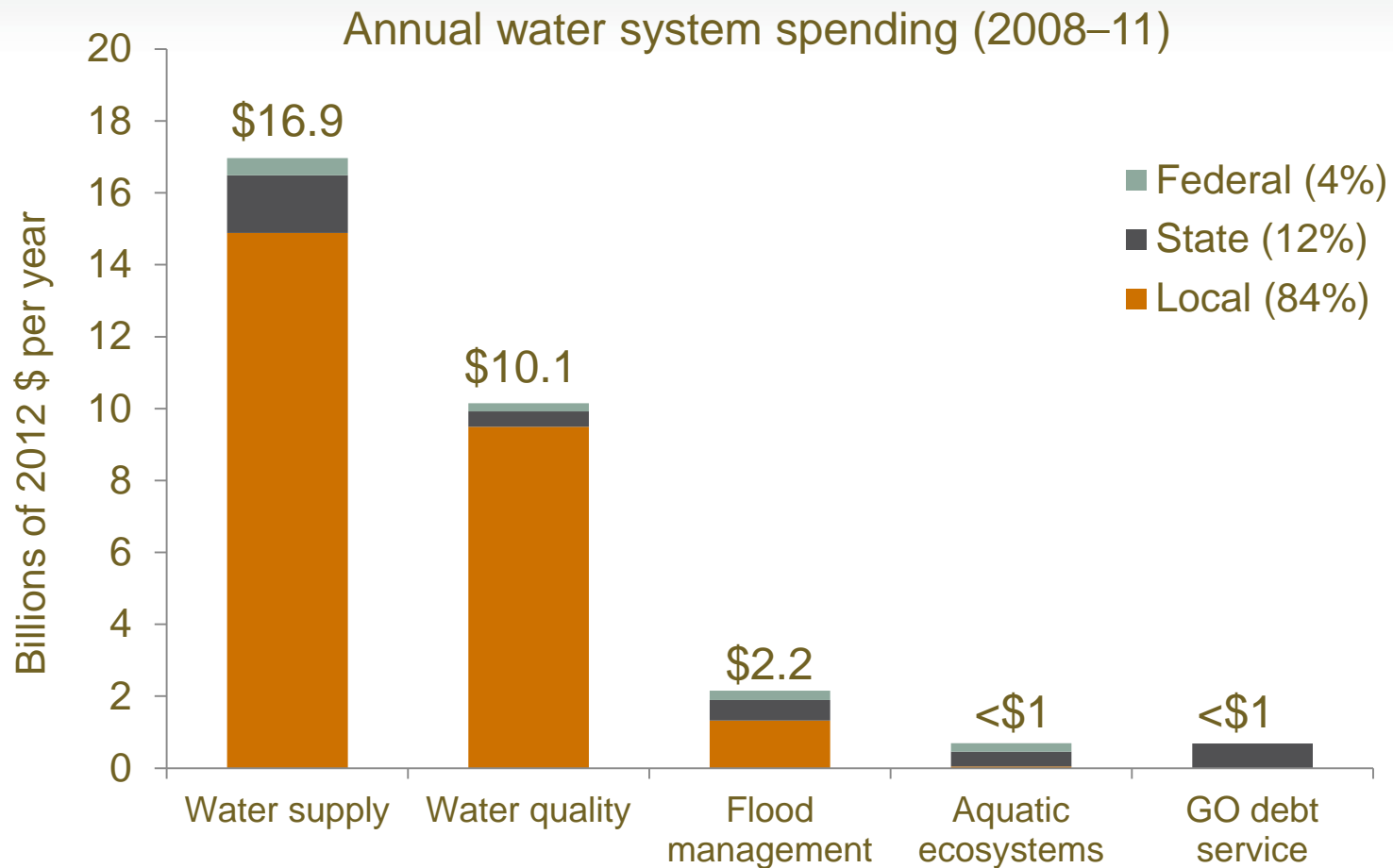
The drought highlights the crucial role of our water system

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



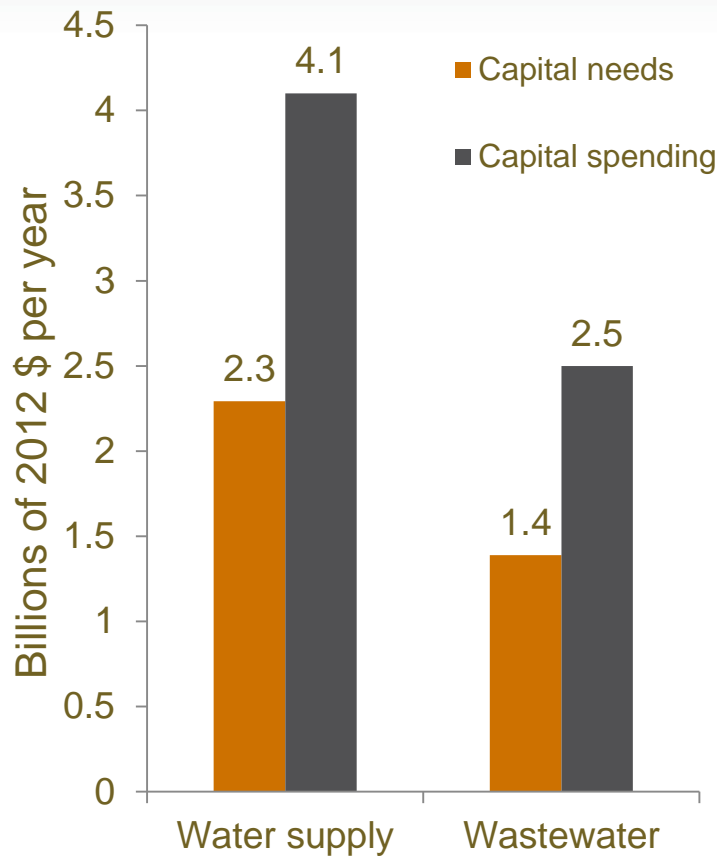
Lake Oroville, January 2014

Local agencies raise most of \$30+ billion spent annually on California water



Source: Hanak et al., Paying for Water in California (PPIC 2014).

Urban water and wastewater utilities are in relatively good fiscal health



Source: Hanak et al. Paying for Water in California (PPIC 2014)
(Capital needs from USEPA surveys; spending from CA State Controller).

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

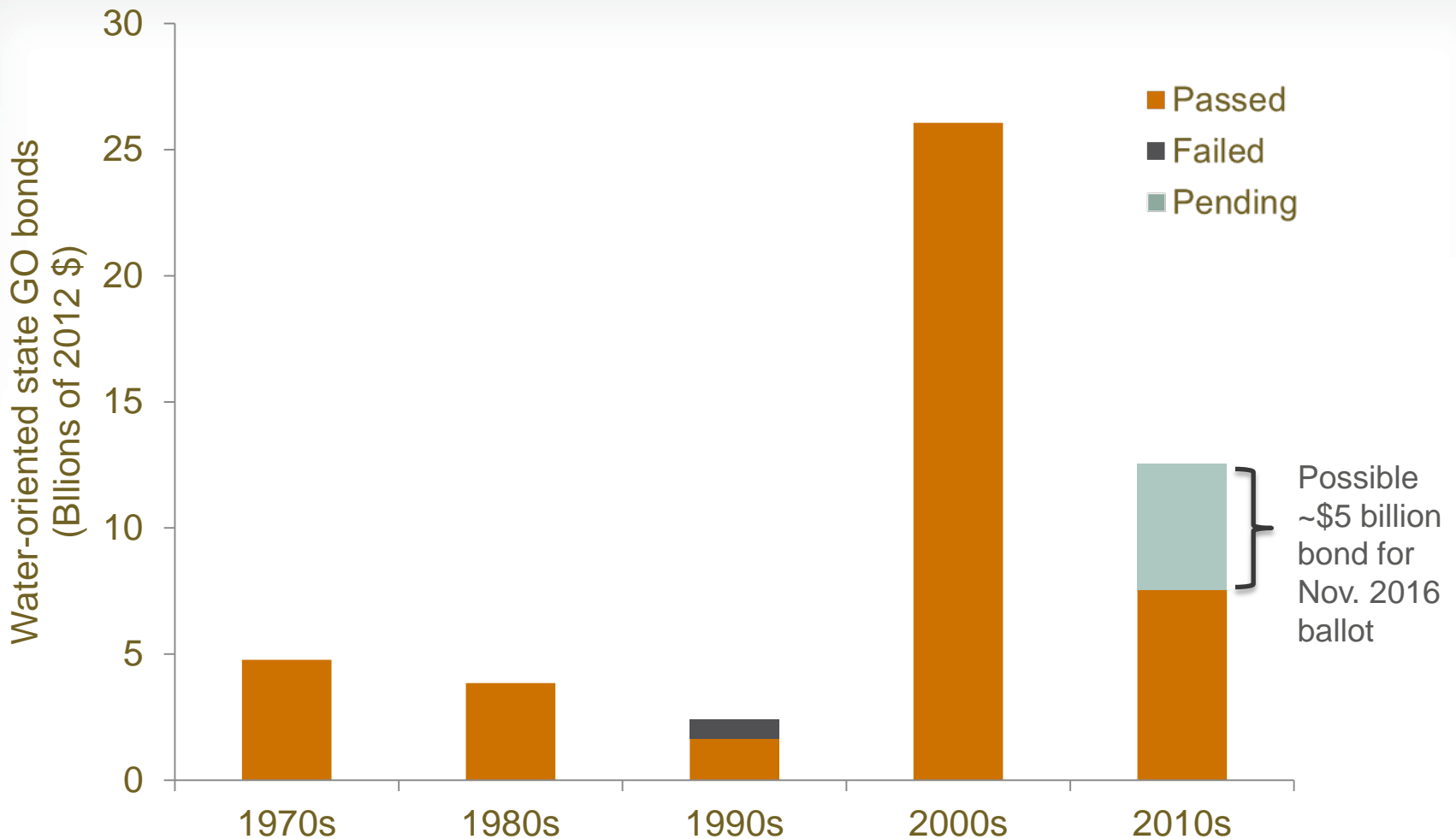
Debilitating funding gaps in other areas: the “fiscal orphans”

	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 (\$12–\$20/month per household)		

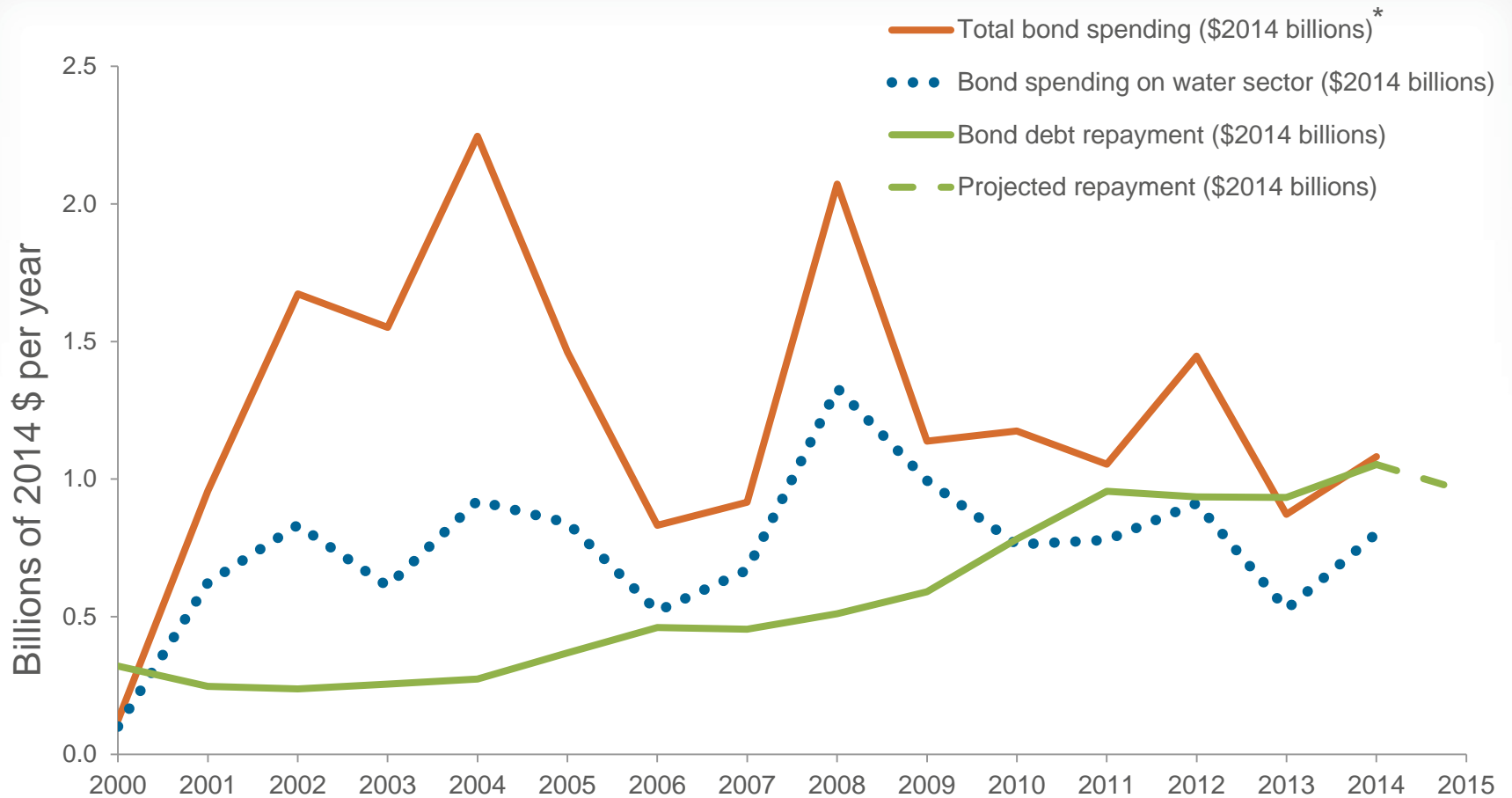
Three constitutional reforms make it harder to pay for local water services

Prop. 13 1978	Prop. 218 1996	Prop. 26 2010
<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 50% of state voters</p>	<ul style="list-style-type: none">• General taxes no longer available to special districts• Local property-related fees/assessments:<ul style="list-style-type: none">○ Property-owner protest hearings○ Strict cost-of-service requirements○ 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• Stricter cost-of-service requirements for wholesale agency fees

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



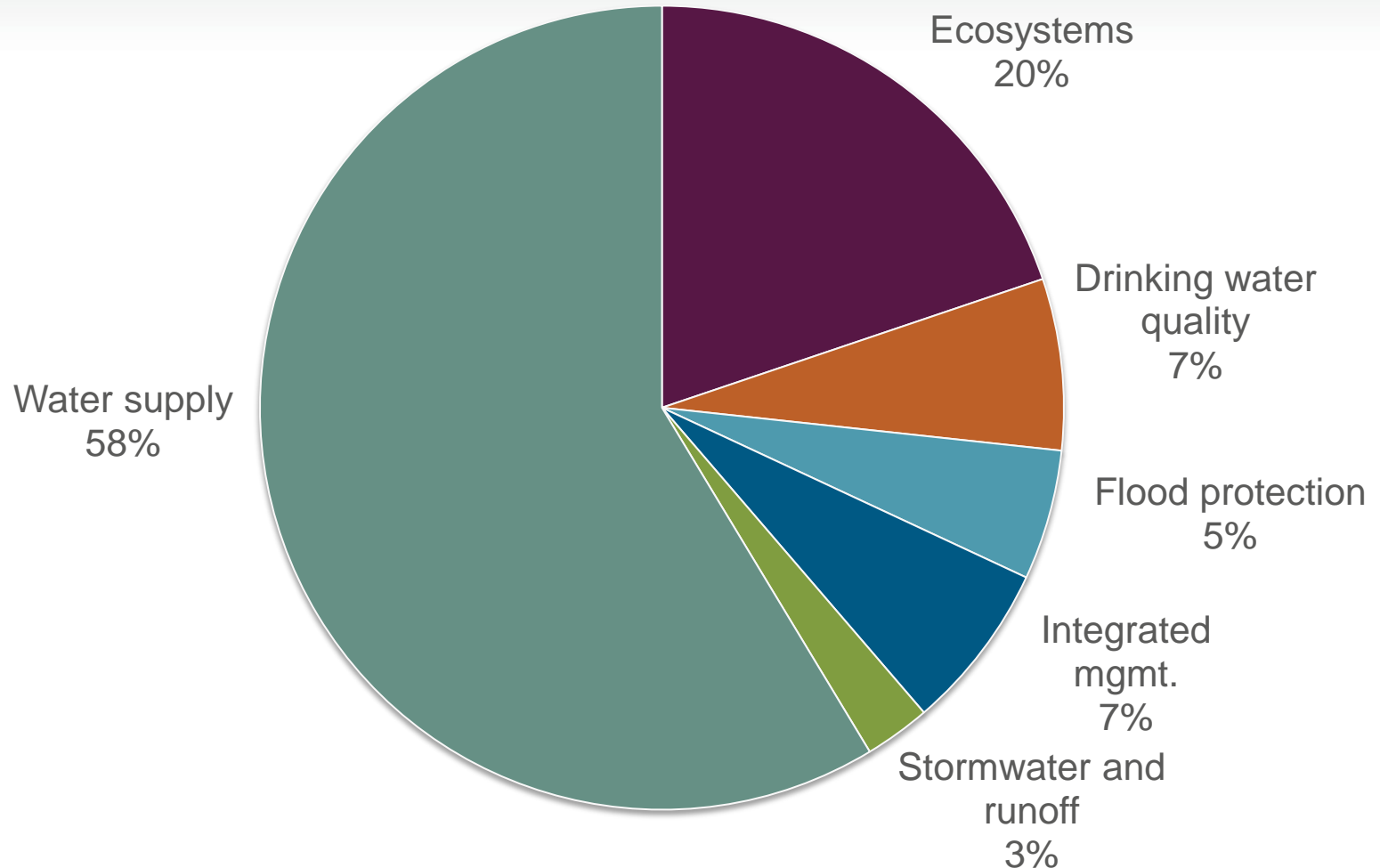
State bonds contribute under \$1B/year to water system; debt service now as high



Source: Governor's budgets

* Total bond spending includes funds for parks

Prop. 1 focuses mainly on water supply and ecosystems



\$7.5 billion (\$7.12 of new debt)

California must go beyond bonds to address fiscal orphans

Gap area	Annual gap (\$ millions)	One-time infusion from Prop 1 (\$ millions)	Other long-term funding options
Safe drinking water in small rural systems	\$30–\$160	\$260*	<ul style="list-style-type: none"> Statewide surcharges on water, chemical use
Flood protection	\$800–\$1,000	\$395	<ul style="list-style-type: none"> Developer fees Property assessments Special state, local taxes
Stormwater management	\$500–\$800	\$200	<ul style="list-style-type: none"> Developer fees Property assessments Special state, local taxes Surcharges on water, chemical, or road use
Aquatic ecosystem management	\$400–\$700	\$2,845**	<ul style="list-style-type: none"> Special state, local taxes Surcharges on water use, hydropower production
Integrated management	\$200–\$300	\$510	<ul style="list-style-type: none"> Special state, local taxes Surcharges on water use

*These funds are available for communities of all sizes. Another \$260 million is available for small community wastewater systems.

** This includes the \$1.495 billion earmarked for ecosystem investments and \$1.35 billion from water storage project matching funds set aside for ecosystem benefits.

The legislature can help in many ways

- Some recent legislative support:
 - Funding authorities for local groundwater sustainability agencies (SGMA, 2014)
 - Broader definition of water supply (e.g., stormwater capture) (AB 2403, 2014)
 - Consolidation of small systems (AB 115/SB 88, 2015)
- Other actions that could help:
 - Broadening local agency missions (AB 810, 2001)
 - Approving new fees and taxes
 - Addressing constitutional issues related to definition of water, lifeline rates

Thank you!

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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More information available at: www.ppic.org/water