Paying for Water in California

November 16, 2015

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Senate Natural Resources and Water Committee Hearing on Underfunded Water Needs
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

Annual water system spending (2008–11)

- **Water supply**: $16.9 billion
- **Water quality**: $10.1 billion
- **Flood management**: $2.2 billion
- **Aquatic ecosystems**: <$1 billion
- **GO debt service**: <$1 billion

Source: Hanak et al., Paying for Water in California (PPIC 2014).
Urban water and wastewater utilities are in relatively good fiscal health

- 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

Source: Hanak et al. Paying for Water in California (PPIC 2014)
(Capital needs from USEPA surveys; spending from CA State Controller).
Debilitating funding gaps in other areas: the “fiscal orphans”

<table>
<thead>
<tr>
<th>Overall grade</th>
<th>Annual gap ($ millions)</th>
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<tbody>
<tr>
<td>Water supply</td>
<td>Passing (mostly)</td>
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<tr>
<td>Wastewater</td>
<td>Passing (mostly)</td>
</tr>
<tr>
<td>Safe drinking water (small rural systems)</td>
<td>Failing</td>
</tr>
<tr>
<td>Flood protection</td>
<td>Failing</td>
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<tr>
<td>Stormwater management</td>
<td>Failing</td>
</tr>
<tr>
<td>Aquatic ecosystem management</td>
<td>Failing</td>
</tr>
<tr>
<td>Integrated management</td>
<td>On the brink</td>
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Total annual gap: $2–$3 billion ($12–$20/month per household)
### Three constitutional reforms make it harder to pay for local water services

<table>
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<tbody>
<tr>
<td>• Property taxes reduced</td>
<td>• General taxes no longer available to special districts</td>
<td>• Stricter requirements on local non-property related fees and state regulatory fees</td>
</tr>
<tr>
<td>• Local special taxes require 2/3 voter approval</td>
<td>• Local property-related fees/assessments:</td>
<td>• Stricter cost-of-service requirements for wholesale agency fees</td>
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<tr>
<td>• State taxes require 2/3 legislative approval*</td>
<td>o Property-owner protest hearings</td>
<td></td>
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<tr>
<td>* Ballot measures can still pass with 50% of state voters</td>
<td>o Strict cost-of-service requirements</td>
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<td></td>
<td>o Floods and stormwater: new charges require 50% vote by property owners or 2/3 popular vote</td>
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State GO water bonds have grown significantly since the early 2000s

Water-oriented state GO bonds
(Billions of 2012 $)

1970s 1980s 1990s 2000s 2010s

Possible ~$5 billion bond for Nov. 2016 ballot

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
Prop. 1 focuses mainly on water supply and ecosystems

- Water supply: 58%
- Ecosystems: 20%
- Drinking water quality: 7%
- Flood protection: 5%
- Integrated mgmt.: 7%
- Stormwater and runoff: 3%

$7.5 billion ($7.12 of new debt)
California must go beyond bonds to address fiscal orphans

<table>
<thead>
<tr>
<th>Gap area</th>
<th>Annual gap ($ millions)</th>
<th>One-time infusion from Prop 1 ($ millions)</th>
<th>Other long-term funding options</th>
</tr>
</thead>
<tbody>
<tr>
<td>Safe drinking water in small rural systems</td>
<td>$30–$160</td>
<td>$260*</td>
<td>Statewide surcharges on water, chemical use</td>
</tr>
<tr>
<td>Flood protection</td>
<td>$800–$1,000</td>
<td>$395</td>
<td>Developer fees, Property assessments, Special state, local taxes</td>
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<tr>
<td>Stormwater management</td>
<td>$500–$800</td>
<td>$200</td>
<td>Developer fees, Property assessments, Special state, local taxes, Surcharges on water, chemical, or road use</td>
</tr>
<tr>
<td>Aquatic ecosystem management</td>
<td>$400–$700</td>
<td>$2,845**</td>
<td>Special state, local taxes, Surcharges on water use, hydropower production</td>
</tr>
<tr>
<td>Integrated management</td>
<td>$200–$300</td>
<td>$510</td>
<td>Special state, local taxes, Surcharges on water use</td>
</tr>
</tbody>
</table>

*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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Research presented here was supported in part by the S.D. Bechtel, Jr. Foundation and the California Water Foundation, an initiative of the Resources Legacy Fund.

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