California’s Stormwater: A Fiscal Orphan

Ellen Hanak
Public Policy Institute of California
Senate Joint Informational Hearing, Feb. 25, 2015
Stormwater is a fraction of the $30+ billion spent annually on California water

Annual water system spending (2008–2011)

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


includes ~$500 million in stormwater programs
Stormwater is one of five “fiscal orphans” with debilitating funding gaps

<table>
<thead>
<tr>
<th>Overall grade</th>
<th>Annual gap ($ millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Water supply</strong></td>
<td>Passing (mostly)</td>
</tr>
<tr>
<td><strong>Wastewater</strong></td>
<td>Passing (mostly)</td>
</tr>
<tr>
<td><strong>Safe drinking water</strong></td>
<td>Failing</td>
</tr>
<tr>
<td>(small rural systems)</td>
<td></td>
</tr>
<tr>
<td><strong>Flood protection</strong></td>
<td>Failing</td>
</tr>
<tr>
<td><strong>Stormwater management</strong></td>
<td>Failing</td>
</tr>
<tr>
<td><strong>Aquatic ecosystem management</strong></td>
<td>Failing</td>
</tr>
<tr>
<td><strong>Integrated management</strong></td>
<td><strong>On the brink</strong></td>
</tr>
</tbody>
</table>

Total: $2–$3 Billion ($12 - $20/month/household)

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

<table>
<thead>
<tr>
<th>1978</th>
<th>1996</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Prop 13</td>
<td>Prop 218</td>
<td>Prop 26</td>
</tr>
<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 (more likely to be taxes)</td>
</tr>
</tbody>
</table>
| • Local special taxes require 2/3 voter approval | • Local property-related fees/assessments:  
  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 | • Stricter cost-of-service requirements for wholesale agency fees |
| • State taxes require 2/3 legislative approval* |                                                                 |                                                                 |

* Ballot measures can still pass with simple majority (50%) of state voters
Stormwater management has been most hindered by constitutional reforms

- 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

The Los Angeles River watershed is expected to reach “zero-trash”
Stormwater capture is an example of integrated water management

- Addresses pollution
- Augments water supply
- Success requires
  - Breaking down management silos
  - Raising funds
- Water bills can pick up part of the tab (for water supply benefits)
California needs to look beyond state bonds to close funding gaps

<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>
</tr>
<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.
Some local stormwater funding successes, mainly in coastal areas

- General obligation bonds (e.g., Los Angeles, 2004)
- Property-related fees/assessments (e.g., Burlingame and Santa Clarita, 2009)
- Transportation-related fees (San Mateo County, 2005)
- Special taxes (e.g., Ferndale, 1997)
- Surcharge on water bill (Irvine Ranch and Santa Margarita Water Districts, with special authority under AB 810 – enacted in 2001)

For details, see Appendix A and Appendix E of Hanak et al. Paying for Water (PPIC, 2014)
The legislature can help in many ways

- Extend local funding authorities
  - Progress last year (e.g., AB 2403)
  - Statewide AB 810 authority would also help

- Facilitate integration (e.g., by allowing locals to use transportation funds to match state grants)

- Pass new state fees and taxes on key pollutants (e.g., transportation fuels, street trash sources)

- Lower costs by controlling pollution at source (e.g., restrictions on toxic chemical use)
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:

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

- Thank you for your interest in this work.