

# Paying for Water in California

November 16, 2015

Ellen Hanak, Center Director and  
Senior Fellow

---

Senate Natural Resources and Water Committee  
Hearing on Underfunded Water Needs



**PPIC**

PUBLIC POLICY  
INSTITUTE OF CALIFORNIA

PPIC WATER POLICY CENTER

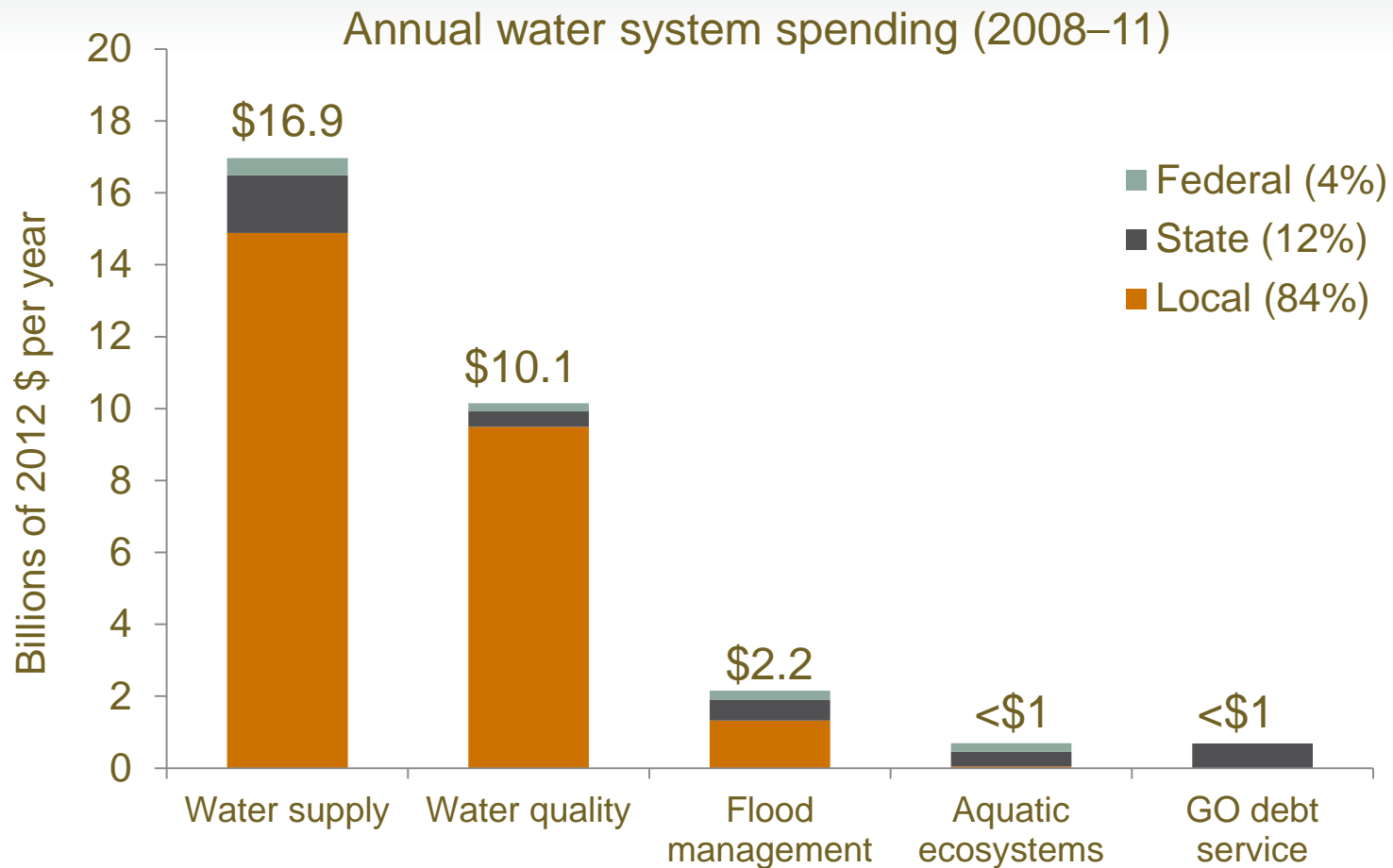
# The drought highlights the crucial role of our water system

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



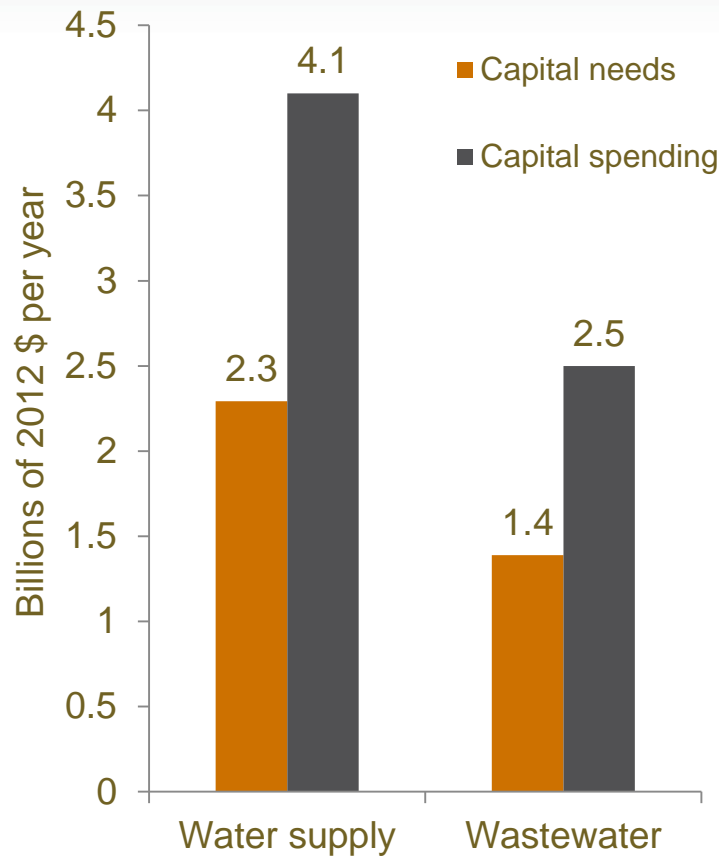
Lake Oroville, January 2014

# 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

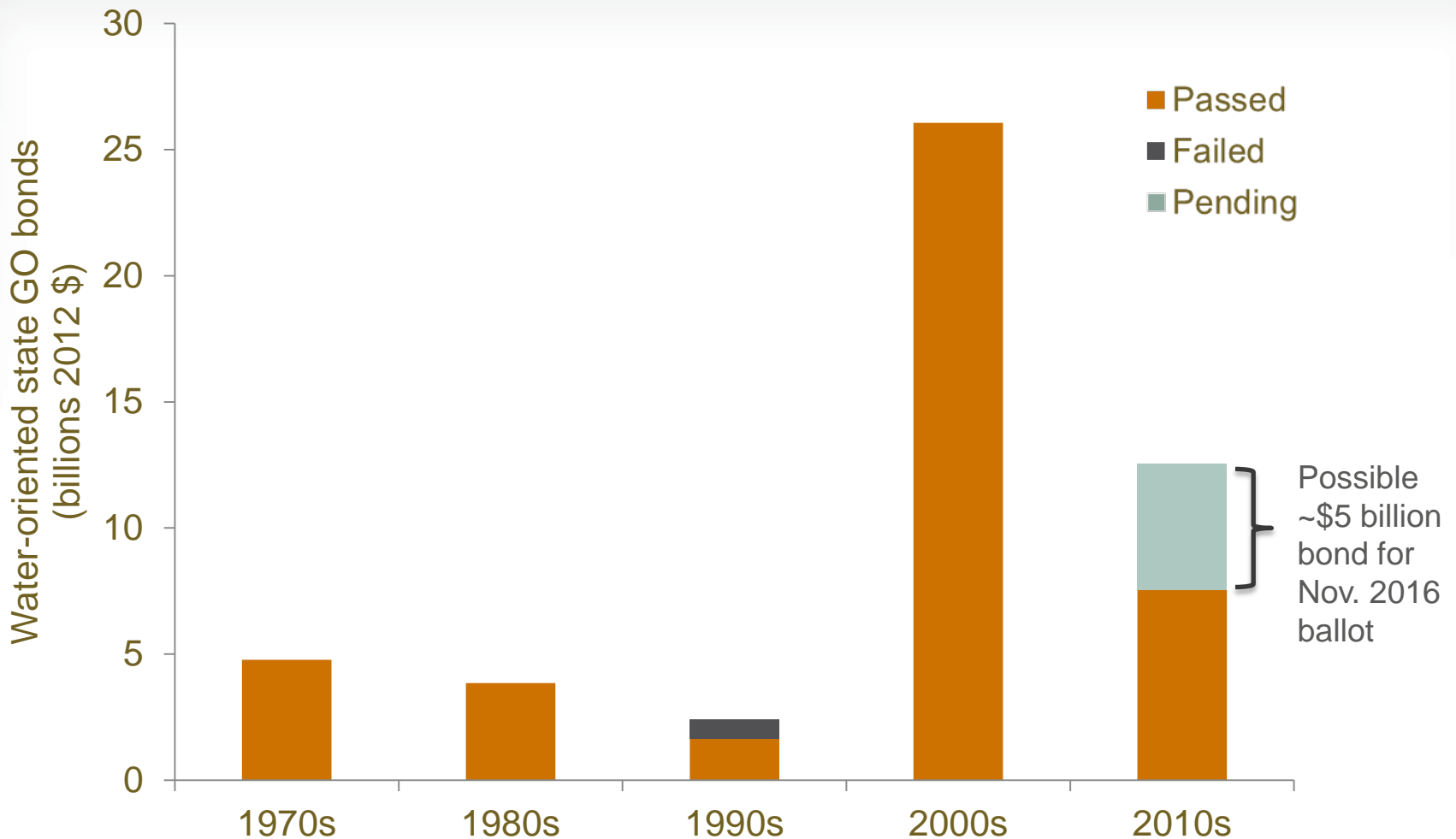
# Debilitating funding gaps in other areas: the “fiscal orphans”

	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
<b>Total annual gap: \$2–\$3 billion (\$12–\$20/month per household)</b>		

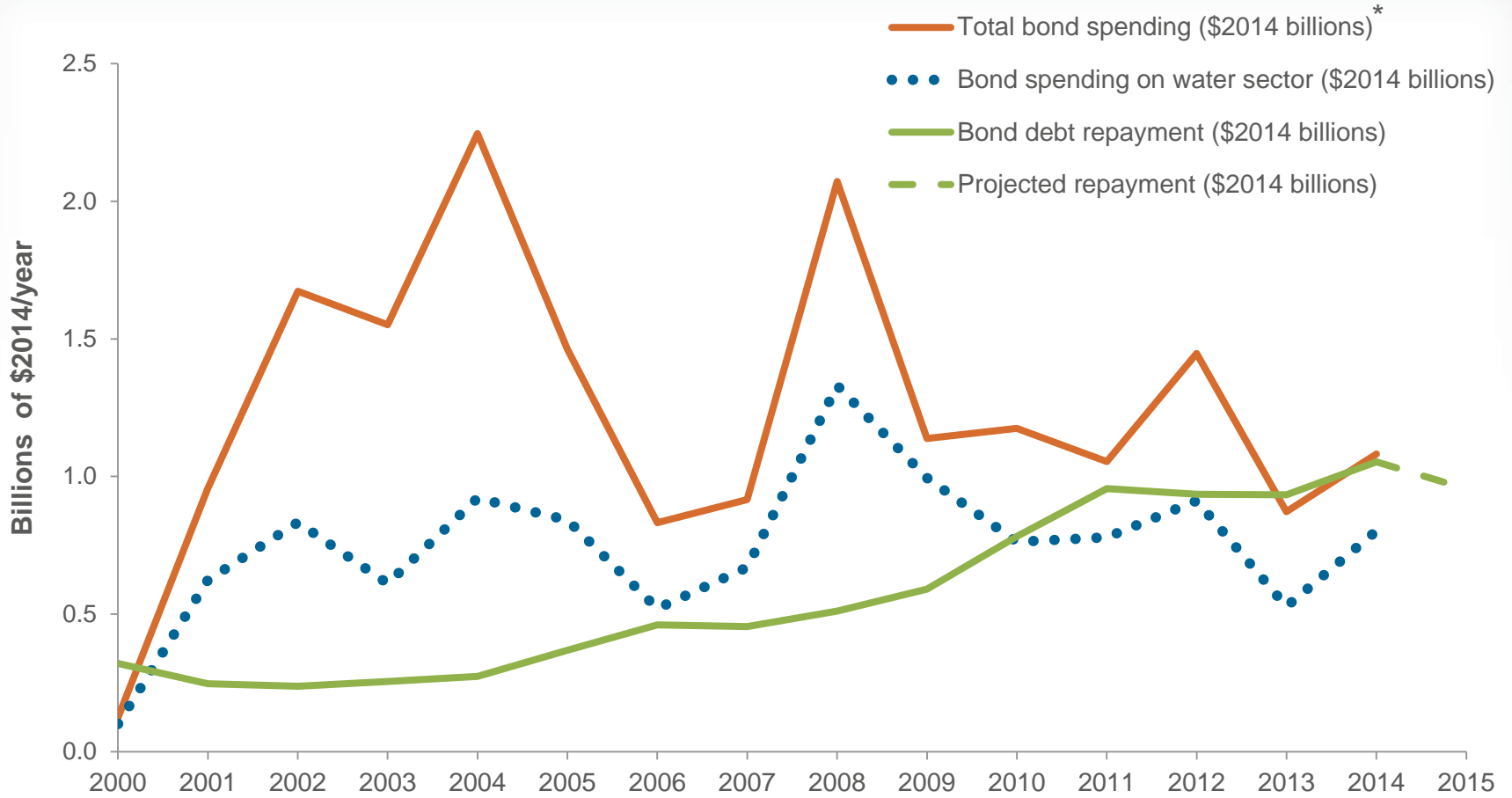
# Three constitutional reforms make it harder to pay for local water services

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

# 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

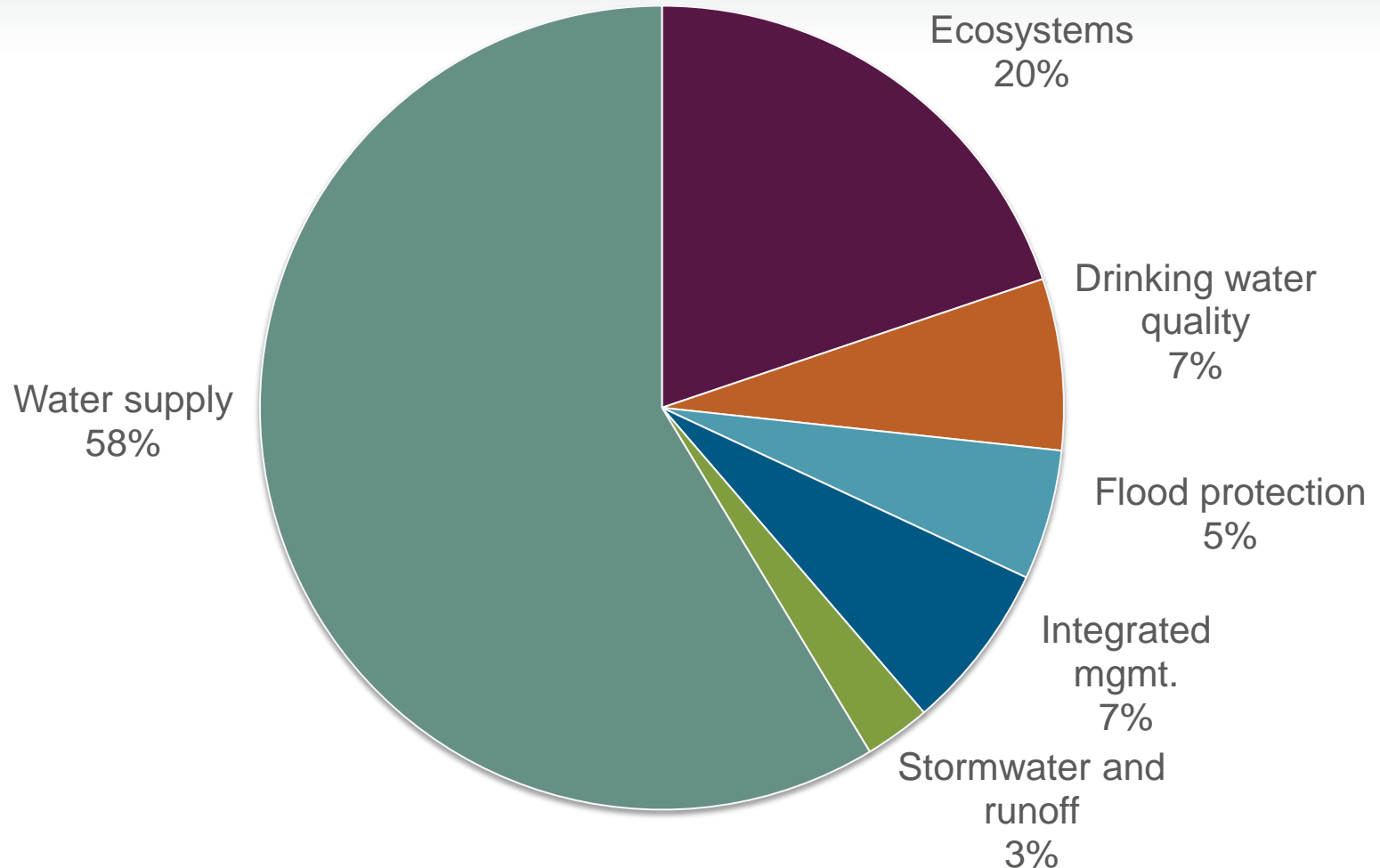


Source: Governor's budgets

\* 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"> <li>Statewide surcharges on water, chemical use</li> </ul>
Flood protection	\$800–\$1,000	\$395	<ul style="list-style-type: none"> <li>Developer fees</li> <li>Property assessments</li> <li>Special state, local taxes</li> </ul>
Stormwater management	\$500–\$800	\$200	<ul style="list-style-type: none"> <li>Developer fees</li> <li>Property assessments</li> <li>Special state, local taxes</li> <li>Surcharges on water, chemical, or road use</li> </ul>
Aquatic ecosystem management	\$400–\$700	\$2,845**	<ul style="list-style-type: none"> <li>Special state, local taxes</li> <li>Surcharges on water use, hydropower production</li> </ul>
Integrated management	\$200–\$300	\$510	<ul style="list-style-type: none"> <li>Special state, local taxes</li> <li>Surcharges on water use</li> </ul>

\*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:

Ellen Hanak (hanak@ppic.org; 415-291-4433)

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](http://www.ppic.org/water)