

INFORMATIONAL & OVERSIGHT HEARING:
PROPOSITION 1, CALIFORNIA'S WATER BOND:
WHERE DO WE GO FROM HERE AND
HOW WILL WE KNOW WE GOT THERE?

BACKGROUND

FROM PROPOSITION TO PROJECT FUNDING

On November 4, 2014 voters approved Proposition 1 with 67 percent of the vote. Prop. 1, also referred to as the "Water Bond," provides \$7.545 billion in general obligation bond funding for various water-related projects and programs. Voter approval of Prop. 1 translates to permission for the State to sell general obligation bonds up to the total amount specified, and only for the purposes set out in, its chapters.¹

Those chapters are as follows (in millions):

Chapter 5 -	Clean Drinking Water	\$ 520
Chapter 6 -	Protecting Rivers, Lakes, Streams, Coastal Waters & Watersheds	\$ 1,495
Chapter 7 -	Regional Water Security, Climate, & Drought Preparedness	\$ 810
Chapter 8 -	Statewide Water System Operational Improvement (Storage)	\$ 2,700
Chapter 9 -	Water Recycling	\$ 725
Chapter 10 -	Groundwater Sustainability	\$ 900
Chapter 11 -	Flood Management	\$ 395

Proposition 1 bond funding is likely to stretch out over many years. For all chapters except the storage chapter, portions of the funding will be proposed each January in the Governor's budget and then responded to by the Legislature through the budget appropriation process where the amounts could be reduced, enlarged, accepted as-is, or provided additional parameters in budget language. This back-and-forth between the Legislature and the Governor can continue until the budget is revised in May and finalized in June.

Conversely, as occurred last year with Senate Bills 103 and 104, the Legislature and the Governor could agree to "expedite" some of the Prop. 1 funding through an urgency bill prior to the final budget in June. In SB 103 and 104, funds from Proposition 84, a bond passed in 2006, were expedited in order to finance projects and programs to address the drought. This year the Governor has already proposed to expedite funds from a different bond, Proposition 1E, which was also passed in 2006 and addresses flood-related projects and programs.

¹ For the full text of Proposition 1, see: <http://www.voterguide.sos.ca.gov/en/propositions/1/>

Even when expedited, bond dollars do not translate into real dollars for actual projects and programs until passing through several steps that are designed to ensure accountability. For bond funds that are required to be disbursed through a competitive process, the first of these steps is for the agency to develop guidelines it will use to solicit projects. The guidelines provide, among other information, the total amount of funding available and the criteria the agency will apply to evaluate and rank projects for funding. Under Proposition 1, agencies are required to solicit public input when developing their guidelines.

Once the guidelines are finalized, the agency uses them to attract and evaluate project proposals, sometimes in one or more phases. The agency then makes initial funding awards to various projects. Once the projects demonstrate they are either satisfactorily underway or completed (depending on the financing agreement), the state liquidates bonds (sells them on the market for cash) and reimburses the project proponent.²

Chapter 8, which will fund surface and groundwater storage projects, is the largest single chapter in Prop. 1 and also an exception to the usual budget and appropriations process. Chapter 8 is "continuously appropriated," meaning the Legislature cannot oversee it or condition it in the budget process. Instead, Chapter 8 funding, will go directly to the California Water Commission who is discussed in greater detail in the *Speakers and Affiliation* document for this hearing.

GOVERNOR'S JANUARY BUDGET

On January 9, 2015 the Governor released his proposed 2015-16 Budget. The Natural Resources section of the budget identifies \$532.5 million in initial proposed Prop. 1 spending and highlights the Governor's continuing strategy of making the *California Water Action Plan*, issued in January 2014, the "roadmap for the first five years of the state's journey toward sustainable water management."³

January 30, 2015, the Governor released the *California Water Action Plan Implementation Report*.⁴ The Report "details the origins of the Action Plan, highlights achievements to date, and outlines activities for the next four years." It also acknowledges that it was "developed in response to specific [Legislative] requirements included in the 2014-2015 Budget."

At our hearing the Legislative Analyst's Office will provide an overview of Prop. 1. We will then receive testimony from the agencies the Governor has identified in the proposed 2015-16 budget as implementing Prop. 1 funded projects and programs. Specifically, we have asked those agencies for insight on their proposed grant processes including the time lines and accountability metrics they will use. Our hearing will also be a forum to receive recommendations on how to best maximize the public benefits of our bond dollars from a panel that includes a foundation as well as water agency, agricultural, water quality and environmental advocates. Importantly, it is also provides us with an opportunity to hear from the public.

² This is a simplified explanation. Sometimes the State has pools of bond funds that it can more immediately access and then "backfill" with further bond sales.

³ The California Water Action Plan can be found at http://resources.ca.gov/california_water_action_plan/

⁴ The CWAP Implementation Report is at:

http://resources.ca.gov/docs/california_water_action_plan/CA_WAP_Impl_Rpt-150130.pdf