

Joint Informational & Oversight Hearing of the
ASSEMBLY COMMITTEE ON WATER, PARKS AND WILDLIFE
AND
ASSEMBLY BUDGET SUBCOMMITTEE NO. 3 ON RESOURCES AND TRANSPORTATION

Update on Proposition 1, California's Water Bond:
The Water Quality, Supply and Infrastructure Improvement Act of 2014

February 2, 2016
State Capitol, Room 4202
9:30AM

BACKGROUND

FROM PROPOSITION TO PROJECT FUNDING

On November 4, 2014 voters approved Proposition 1 with 67 percent of the vote. Proposition 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 Proposition 1 provides 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.

Even when appropriated, 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

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

bond funds that are required to be disbursed through a competitive process, the first step 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.

Chapter 8, which will fund surface and groundwater storage projects, is the largest single chapter in Proposition 1. It includes 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 is continuously appropriated to the California Water Commission which will determine the storage projects that will be funded.

Past Appropriations of Proposition 1 Water Bond Funds

To date, the Legislature and Governor have appropriated a little over \$2 billion of the \$7.5 billion in general obligation bond funds authorized by Proposition 1 (see attached charts). When the \$2.7 billion in water storage project funds, continuously appropriated to the California Water Commission by the bond language itself, are included, it brings the total of appropriated Proposition 1 bond funds thus far to \$4.857 billion.

The legislative appropriations occurred through a combination of appropriations included in the Budget Act of 2015/16, and special legislation enacted in March of 2015 (AB 91 and AB 92 (Committee on Budget), Chapters 1 and 2 respectively, of Statutes of 2015), which amended the Budget Act of 2014/15 to accelerate some of the Proposition 1 expenditures in response to the drought.

AB 91 and AB 92, among other things, accelerated appropriation of \$267 million in Proposition 1 funds, including \$131.7 million for the State Water Resource Control Board's water recycling program, \$66 million for small community wastewater treatment, and \$69 million for clean drinking water for disadvantaged communities. AB 92 also transferred \$10 million in Proposition 1 funds to the Cal Conserve Water Use Efficiency Revolving Fund for water conservation and water use efficiency projects and programs to achieve urban water use targets. These bills also appropriated monies from other funds, including the General Fund, Greenhouse Gas Reduction Funds, Cleanup & Abatement Account, Harbors & Watercraft Fund, Fish and Game Preservation Fund, and Proposition 1E, for a total authorized expenditure of \$1.059 billion for various drought-related activities.

The fact that \$4.857 billion in Proposition 1 bond funds has been appropriated to date does not mean that amount has actually been expended, or, in cases where grants have been awarded, that project construction has necessarily begun. In many cases, the funds were appropriated to

agencies and departments who were then tasked with developing guidelines and grant criteria, holding public meetings, conducting solicitations, and evaluating applications before grants could be awarded. Those agencies are at different stages of program implementation, the progress of which will be reviewed at the February 2, 2016 joint hearing.

Proposition 1 Proposed Appropriations in the Governor's Budget for 2016/17

The Governor is proposing additional appropriations from Proposition 1 in the 2016/17 state budget. Major new proposed expenditures include \$465 million to fulfill state obligations under several agreements as follows:

- \$250 million for Klamath Hydroelectric Settlement Agreement (Natural Resources Agency)
- \$89 million for Central Valley Project Improvement Act (Natural Resources Agency)
- \$45 million for San Joaquin River Settlement Agreement (\$27 million to the Department of Water Resources (DWR) and \$18 million to the Department of Fish and Wildlife)
- \$80 million for the Salton Sea (DWR). This funding is the centerpiece of a multi-agency proposal to protect habitat and prevent dust emissions from a shrinking Salton Sea.

The Governor's proposed budget also proposes appropriation of \$11 million from Proposition 1 to the Santa Monica Mountains Conservancy for Los Angeles River restoration.

At the hearing on February 2, 2016 the LAO will provide an overview of Proposition 1 and the implementation process to date. The committees will then receive testimony from the agencies with responsibility for implementing Proposition 1 funded projects and programs. Specifically, we have asked those agencies for an update on the status of their grant processes, including the time lines and accountability metrics they have used. The committees will also hear stakeholder perspectives on the implementation process, including panelists representing urban, agricultural, environmental, community and Tribal interests. The goals of the hearing include evaluating the extent to which the state is achieving its goals of maximizing the public benefits of bond dollars, achieving expeditious implementation of needed water investments, and ensuring accountability, transparency and fairness. The committees will also hear about current proposals for additional Proposition 1 appropriations in the 2016/17 budget. Importantly, this hearing will also provide the committees with the opportunity to hear from the public.