

Delta Stewardship Council Meeting on 6th Draft Delta Plan
Chapter 8: Funding Principles to Support Co-Equal Goals
Sacramento, June 15, 2012

Comments by Ellen Hanak, Senior Policy Fellow, Public Policy Institute of California

Thank you for the opportunity to participate in this discussion of finance issues today. I would like to begin by saying that I agree with the financing philosophy laid out in the “guiding principles” in the current draft of the Delta Plan, including identifying an array of funding sources, reserving state and federal funds for public benefits, seeking to maximize the opportunities for blending funding sources to achieve multiple benefits, and identifying beneficiaries and stressors and related user fees to contribute to plans and projects. PPIC’s recent analyses¹ of water system funding challenges and opportunities are very much in sync with this philosophy. Several key findings are relevant for this discussion:

- (1) The combined annual spending of local, state, and federal agencies on California water is substantial (we estimate roughly \$34 billion), and most of this spending is done by local agencies, funded by ratepayers. The weakest links in water system funding are in the smallest areas: flood protection, ecosystem protection, and state planning and analysis. These are key areas for meeting the goals of the Delta Reform Act of 2009 and implementing an effective Delta Plan, and they have come to rely on unreliable funding from general obligation bonds (Figure 1).
- (2) California voters may be losing their appetite for general obligation bonds for water. In the 2000s, voters supported an unprecedented amount of GO bonds for water (in real terms, over \$20 billion, more than two-thirds of all GO bond support in this area since the 1970s - Figure 2). These funds have supported a range of useful things, and they have been essential for the “orphan” areas of flood protection, ecosystem protection, and state planning. If voters do not approve additional funds through this mechanism soon, Californians will be forced to figure out alternatives that we’ve been able to avoid because bond funds were available.
- (3) The inadequate and declining federal role in flood protection means that direct beneficiaries of flood protection investments will need to contribute a greater share of these investments. The draft Delta Plan’s recommendation for the creation of a Delta Flood Risk Management Assessment District is a prudent step in this direction.
- (4) More stable and effective funding to support ecosystem investments and the underlying science will be needed – probably through a combination of user/stressor fees and public funds. One area where the Delta Plan and the Council can play a very important role is in improving the effectiveness of this spending. As the plan points out, many water projects have multiple benefits, including ecosystem benefits. By the same token, scientific work on the Delta ecosystem is funded by a plethora of agencies. But right now, much of this activity is imbedded

¹ See Hanak et al. (2012) *Water and the California Economy* and Hanak et al. (2011) *Managing California’s Water, From Conflict to Reconciliation*, chapter 2 (both available at www.ppic.org)

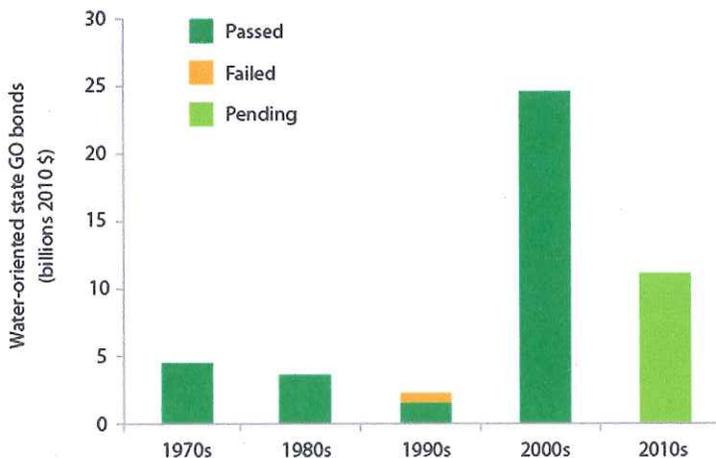
in individual projects and agencies, and not well integrated. This means less effective ecosystem outcomes, and less effective use of taxpayer and ratepayer contributions. Effective coordination – and indeed *integration* – of ecosystem support should be a key role of the interagency implementation committee proposed in Chapter 2 of the 6th draft Delta Plan.

Figure 1. Adequacy of water system spending in California

Area	Annual spending (late 2000s)	Primary Source	Adequacy
Water supply infrastructure	\$22 billion	Ratepayers	OK
Wastewater infrastructure	\$10 billion	Ratepayers	OK
Flood management infrastructure	\$1.7 billion	Current policy goals: Federal (65%) State (20-25%) Landowners (10-15%)	FAILING
Ecosystem management	\$0.5 billion (regulatory agencies)	State general obligation (GO) bonds, ratepayers	FAILING
State planning and oversight	\$0.1 billion	State general fund, GO bonds	FAILING

Source: Hanak et al. 2012. *Water and the California Economy*. Public Policy Institute of California.

Figure 2. Unprecedented growth in state general obligation bonds for water in the 2000s



Source: Hanak et al. 2012. *Water and the California Economy*. Public Policy Institute of California.