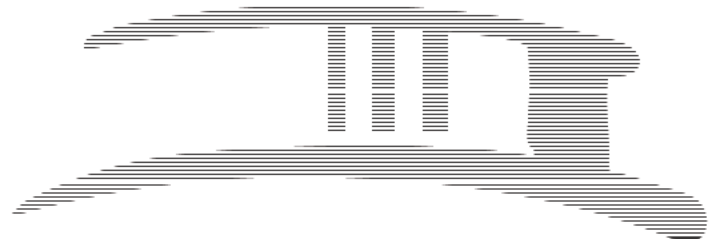


Funding and Options For Near-Term Actions In the Delta

LEGISLATIVE ANALYST'S OFFICE

Presented to:
Senate Select Committee
On Delta Stewardship and Sustainability
Hon. Lois Wolk, Chair





Overview of State Actions in the Delta

- Many state entities engage in activities in the Delta. These activities range from long-term planning efforts to day-to-day activities to maintain and preserve the Delta.
- For example, the Delta Stewardship Council (DSC) is developing a long-term Delta Plan to achieve water supply reliability and enhance the ecosystem while preserving the Delta as an evolving place.
- In addition, the Natural Resources Agency and the Department of Water Resources (DWR) are investigating alternative conveyance and some ecosystem restoration as part of the Bay Delta Conservation Plan (BDCP), which is intended to shape the way water is moved through the Delta for the next 50 years.
- Some of the day-to-day activities in the Delta include levee improvements and ecosystem improvement that can be done much sooner than the longer-term efforts discussed above.



Estimated 2012-13 State Expenditures For the Delta

(In Millions)

| Delta-Related Activities | Final 2012-13 Budget |
|--|----------------------|
| Conveyance/Bay Delta Conservation Plan | \$123.4 |
| Levee system integrity | 93.1 |
| Ecosystem restoration | 72.8 |
| Water quality | 44.7 |
| Water use efficiency | 42.5 |
| Science | 13.9 |
| Oversight and coordination | 6.2 |
| Water supply reliability | 4.0 |
| Delta Plan | 2.4 |
| Watershed management | 1.5 |
| Total | \$404.5 |

- State expenditures related to efforts in the Delta are estimated to total \$405 million in 2012-13. As indicated in the figure, about \$123 million of these expenditures is related to the BDCP. Construction of this project is unlikely to take place within the next 10 to 15 years.
- A large portion of the remaining funding in 2012-13 is for on-going activities funded through existing programs, such as levee maintenance and improvements and ecosystem projects.
- In addition, the DSC and the Delta Protection Commission (DPC) have developed lists of potential Delta-related activities (as required by state law) that could begin prior to the construction of conveyance.



Propositions Provide Funds for Existing State Programs

| Bond Funding Available for Delta-Related Activities | | |
|--|---|---|
| <i>(In Millions)</i> | | |
| Proposition | Purpose | Unappropriated Funding^a |
| 50 | Water Quality, Abandoned Mines, and Fish Screens | \$21.3 |
| | Pollution Reduction (runoff) | 14.2 |
| | Integrated Regional Water Management (IRWM) | 12.4 |
| | Miscellaneous | 15.3 |
| | Total, Proposition 50 | \$63.2 |
| 84 | IRWM (various regions) | \$181.7 |
| | San Joaquin Agricultural Drainage | 36.9 |
| | Pollution Reduction (runoff) | 22.9 |
| | Delta Fishery Restoration | 10.1 |
| | Miscellaneous | 10.3 |
| Total, Proposition 84 | \$261.9 | |
| 1E | State Plan of Flood Control Levees and Delta Levees | \$255.2 |
| | Flood Protection Corridors | 1.6 |
| | Total, Proposition 1E | \$256.8 |
| Total, All Propositions | | \$581.9 |

^a Some bond funds have been appropriated but not encumbered (committed to specific projects). As such, the amounts listed here may underestimate available funding. Using unencumbered funding would require action by the Legislature to revert and reappropriate those funds.

- Ongoing activities funded through existing programs for levee maintenance and improvements (the Delta Levee Maintenance Subventions Program and the Special Flood Control Projects Program) and for ecosystem restoration are largely funded by state bond funds provided in voter-approved Propositions 50, 84, and 1E, as well as a share of local funding.



Propositions Provide Funds for Existing State Programs

(Continued)

- Currently, there is \$582 million in bond funds available that could be used for Delta-related and other projects that has not been appropriated by the Legislature.

- It is likely that there is a larger amount of bond funds that could be available for such projects from bond funds that have been appropriated by the Legislature, but not committed to a specific project at this time. This amount is estimated to be over \$1 billion and will be updated by the Natural Resources Agency in the near future.



Activities Proposed by Coalition to Support Near-Term Delta Projects

- The Coalition to Support Near-Term Delta Projects is a group of Delta stakeholders, including Delta residents, farmers, water agencies from around the state, and environmental groups. The coalition has identified 53 activities costing an estimated \$770 million that could start within the next five years.
- The activities include: (1) levees/emergency management; (2) ecosystem restoration; (3) water supply/quality improvements; and (4) various other actions, including research, education, and economic development. Most of these activities would be carried out by nonstate groups using some state funds.
- Levee improvements and other emergency management actions make up the majority of both the costs and the number of projects proposed by the coalition, which could be financed through existing DWR programs.
- The proposed projects are not intended to impact any statewide plans for water conveyance.



Issues for Legislative Consideration



Available Funding Is Limited

- While there remains about \$582 million in unappropriated bond funds and likely more in unencumbered funds that could fund near-term Delta-related activities, using these funds exclusively for Delta-related activities would limit the availability of funds for other water-related activities.
- In addition, the availability of federal funds for near-term actions in the Delta has declined.



Local Cost Shares for Levees Difficult to Secure

- State-funded projects typically require a local cost share around 25 percent. Reclamation districts, which are primarily responsible for the local share, tend to be small and poorly funded and may not be able to provide the local cost share.
- Delta levees benefit other parties aside from landowners in the Delta, and on the basis of the beneficiary pays principle, those beneficiaries should pay for a share of those projects. However, identifying all of the beneficiaries of projects and their equitable cost shares is difficult to do and beneficiaries have an incentive to “free ride” on the efforts of others.



Permitting Can Be Slow and Costly

- According to project proponents, some permitting and review processes can drive up costs or delay action on certain Delta projects. These processes include: state and federal Endangered Species Acts; California Environmental Quality Act and the National Environmental Policy Act; mercury regulations; and dredge and fill permits.



Issues for Legislative Consideration

(Continued)



Coalition Proposals Lacks Some Specifics

- Given that current funding is limited and future funding remains uncertain, prioritizing the coalition's proposed activities would help ensure that the highest priority activities receive adequate funding.
- Most of the activities proposed by the coalition are in the conceptual stage and require studies and engineering analyses to more accurately determine their feasibility and costs. As a result, some of these projects may not be viable or may cost more than estimated.
- The primary criteria used to identify these projects are their uncontroversial status and ability to proceed quickly. Using other criteria (such as the objectives laid out in the Delta Reform Act of 2009) may identify different projects. For instance, the DSC has developed a list of potential near-term projects that is much broader than those proposed by the coalition.



Next Steps for Near-Term Actions

- Consider Uses of Unencumbered Funds.** If the Legislature determines that near-term actions in the Delta are of high priority, it could revert unencumbered bond funds and reappropriate those funds for different uses during the budget process. Bond funds should generally be reserved for capital expenditures.
- Make Progress on Beneficiary Pays.** Having all of the beneficiaries of a specific project contribute funding for the project can reduce the amount of pressure on limited state funds and local reclamation districts. However, little progress has been made on implementing this funding approach. A variety of charges have been proposed to ensure that a broader group of beneficiaries contribute funding to Delta activities, such as a delta levee assessment district, a delta watershed diversion charge, and a public goods charge for water.
- Further Analysis Needed of Coalition's Proposals.** As noted previously, the DSC and DPC have developed lists of potential near-term actions. In order to help inform these efforts and determine which specific actions should be taken, it would be helpful for the coalition to provide additional information that justifies the value of its proposed activities. This information could include: (1) demonstrating that the activities are consistent with the objectives in the Delta Reform Act or recommendations made by others, (2) prioritization of actions based on meeting specified objectives, and (3) identification of beneficiaries and potential funding sources.
- Have DSC Review Coalition's Revised List.** The DSC could review and evaluate the coalition's list based on (1) outcomes to be achieved with near-term actions, (2) consistency with the Delta Reform Act's objectives, and (3) relative priorities for actions.