

Successful water management requires adequate, reliable funding

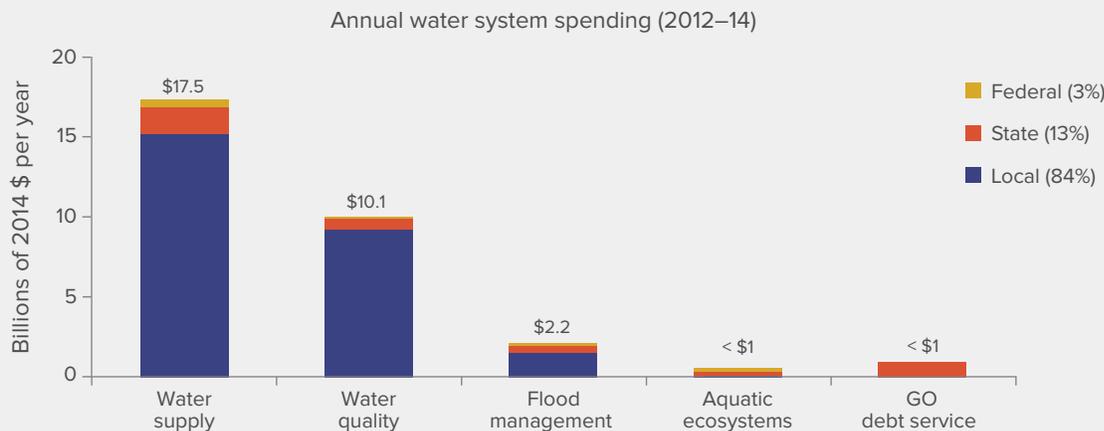
California’s water system supplies water to cities and farms; prevents pollution of lakes, rivers, and coastlines; protects people and businesses from floods; and supports freshwater ecosystems. Numerous local, state, and federal agencies oversee this system and raise revenues from a variety of sources. Identifying funding gaps—and finding the best ways to fill them—are perennial concerns.

Most public attention has focused on state general obligation bonds—voter-approved debt reimbursed with General Fund taxes. Six such bonds were approved between 2000 and 2006, providing roughly \$15 billion for water projects. In November 2014, voters approved Proposition 1—a \$7.5 billion bond that extends this support.

State bonds are important, but they actually play a minor role in funding California’s water. Bonds provide at most \$1 billion of the more than \$30 billion in annual water-related spending. Local revenue—from water and sewer bills to taxes—provides the lion’s share, 84 percent. The state contributes 13 percent and the federal government 3 percent.

California’s urban water and wastewater agencies face challenges, including how to balance their checkbooks during droughts when they collect less revenue. But overall they are in reasonably good fiscal health. Other areas face critical gaps totaling \$2–3 billion annually—a result of legal constraints on local funding, a shrinking federal contribution, and unreliable state support. In California’s \$2.5 trillion economy, this problem is manageable. But dealing with it requires a focused effort. Looking beyond bonds to fill funding gaps should be a top priority.

LOCAL UTILITIES RAISE MOST OF THE MONEY SPENT ON WATER IN CALIFORNIA



SOURCE: Updated from Ellen Hanak et al., *Paying for Water in California* (PPIC 2014).

NOTES: The figure reports average spending for 2012–14. Local expenditures exclude grants from higher levels of government. The water quality category includes management of wastewater and approximately \$500 million for polluted stormwater and other runoff. GO debt service is repayment of state general obligation bonds.

Constitutional changes have harmed local water finance

Local finance is the lifeblood of California’s water system. But a series of constitutional amendments approved by voters—Propositions 13 (1978), 218 (1996), and 26 (2010)—have made raising funds for local water services more difficult than ever.

- **The changes have increased accountability, but with unintended consequences.**

Proposition 218’s rate-setting reforms have improved transparency and public accountability. But they have also imposed overly simplistic cost recovery requirements that inhibit local agencies from investing in new supplies—including recycled water and conservation—and in pollution controls, such as stormwater capture and treatment.