

INSIGHTS INTO PROPOSITION 1: The 2014 California Water Bond

Executive Summary

California faces serious and growing water challenges that will require expanded investment, changes in policy and institutions, and in some cases some fundamentally new technologies, policies, laws, and behaviors. In an attempt to address some of these issues and move the state out of decades of gridlock over water resource management, the California Legislature passed a series of water-related bills at the end of 2009, including an \$11.14 billion water bond. As a result of the state's economic downturn and due to fears the voters would reject it, the Legislature stalled putting the bond measure on the ballot until this year, when they negotiated a new version.

On November 4, 2014 voters will decide the fate of Proposition 1, which authorizes the sale of \$7.12 billion in new general obligation bonds and the reallocation of an additional \$425 million of previously authorized, but unissued, bonds (see Table ES-1 for a summary). If passed by the voters, Proposition 1 would be the fourth-largest water bond in California history, funding a wide range of water-related actions and infrastructure. The total cost of Proposition 1, including interest, will exceed \$14 billion over 30 years.

The Pacific Institute is taking no formal position for or against Proposition 1. We offer this analysis to help voters and the general public to understand and weigh the complexities in this proposition. In our full analysis, we focus on the following key questions:

- What are general obligation bonds and how are they funded?
- How does Proposition 1 compare to past water bonds?

- How would the bond funds be allocated?
- How might the funds for water storage be allocated among competing projects?
- How does the bond address the needs of disadvantaged communities?
- How does the bond address ecosystem needs?

Key findings by the Pacific Institute regarding Proposition 1 include:

- While Proposition 1 contains funds that could provide important benefits for California's environment and communities, there is also a risk that major provisions could cost taxpayers a substantial amount of money without producing any real improvements to water supply, reliability, or environmental quality.
- Proposition 1 will not provide any immediate drought relief.
- Thirty-six percent (\$2.7 billion) of total Proposition 1 funds are allocated to the "public benefits" of possible surface or groundwater storage projects. While some reports suggest that the storage funds will go to surface dams and reservoirs, this is by no means certain.
- Nine percent of funds are devoted to helping alleviate water challenges in "disadvantaged communities." A majority of these funds would support much-needed drinking and wastewater system improvements; however, funding to support ongoing operation and maintenance costs and technical assistance is limited, raising questions about the long-term sustainability of these projects.

Table ES-1. Uses of Proposition 1 bond funds

Bond Sections		Amount (\$ millions)
Water Supply and Reliability		\$4,235
Surface and groundwater storage		2,700
Regional projects in the state's hydrologic regions ¹		510
Stormwater management		200
Urban and agricultural water conservation		100
Water recycling, including desalination		725
Watershed Protection and Restoration		\$1,495
Watershed restoration and habitat protection in designated areas		515
State commitments for environmental restoration		475
Restoration programs available to applicants statewide		305
Projects to increase water flowing in rivers and streams		200
Improvements to Groundwater and Surface Water Quality		\$1,420
Prevention and cleanup of groundwater pollution		800
Drinking water projects for disadvantaged communities		260
Wastewater treatment in small communities		260
Local plans and projects to manage groundwater		100
Flood Protection		\$395
Repairs and improvements to levees in the Delta		295
Flood protection around the state		100
Total		\$7,545

Note: (1) Eligible projects include water reuse and recycling; water conservation and efficiency; local and regional groundwater and surface water storage; rainwater or stormwater capture; regional water conveyance facilities; water desalination; and watershed protection, restoration, and management projects.

Source: Legislative Analyst's Office (LAO). (2014). Overview of State Bond Debt. Sacramento, Calif. Retrieved October 2, 2014, from <http://www.lao.ca.gov/ballot/2014/overview-state-bond-debt-110414.pdf>.

- One percent of funds are devoted to water conservation and efficiency, though such projects could produce more benefit at lower cost compared to other water supply options.
- Other major provisions would provide funds for some ecosystem protection and restoration and to improve surface and groundwater quality.

Ultimately, the effectiveness of Proposition 1 funds in addressing California's overall water problems will depend on how the funds, if passed by the voters, are actually allocated and spent. If Proposition 1 passes, the Institute recommends that the California Water Commission develop a rigorous, independent, and transparent process to evaluate and quantify the public benefits of proposed storage projects. We also recommend that

decisions about the rest of the funds be made with a focus on meeting public and ecosystem needs for safe and reliable water, improvements in efficient use, and reducing the risks of future droughts and floods.

If the California Water Commission identifies and supports good projects, bond funds can help move the state forward in the broader effort of designing, building, and managing a 21st century water system. But voters should not expect immediate relief from Proposition 1 for the impacts of the current drought; nor should they expect these funds to be the last investment that is needed for better institutions, smarter planning, and more effective water management strategies. It can be, at best, a down payment on our water future.