
SENATE COMMITTEE ON APPROPRIATIONS

Senator Ricardo Lara, Chair
2015 - 2016 Regular Session

AB 2480 (Bloom) - Source watersheds: financing

Version: August 1, 2016

Policy Vote: N.R. & W. 6 - 2

Urgency: No

Mandate: No

Hearing Date: August 1, 2016

Consultant: Narisha Bonakdar

This bill meets the criteria for referral to the Suspense File.

Bill Summary: AB 2480 declares it is state policy to recognize and define source watersheds as integral components of California's water system, and eligible for financing on an equivalent basis with other water infrastructure projects.

Fiscal Impact:

- 1) Potential cost pressures in the hundreds of millions of dollars or more to finance watershed maintenance and repair on an equivalent basis with other water projects.
- 2) Unknown, potentially significant, ongoing costs (General Fund) to the SWRCB and DWR to provide guidance and oversight on watershed financing and/or funding applications.

Background: A watershed is an area of land that drains all the streams and rainfall to a common outlet such as the outflow of a reservoir, mouth of a bay, or any point along a stream channel. The word watershed is sometimes used interchangeably with drainage basin or catchment. Ridges and hills that separate two watersheds are called the drainage divide. The watershed consists of surface water, including lakes, streams, reservoirs, and wetlands and all the underlying groundwater.

Watersheds are impacted by numerous stressors, including drought, climate change, forest conversion, invasive species, fire risks and fire suppression, neglect, and inadequate forest management. According to the author, enhancing the conditions of the watersheds increases water quality by reducing sediment, lowering temperatures, and may also increase water quantity by as much as 5 to 20%.

Klamath-Region Watershed. The Klamath-Cascade watershed spans 10 million acres and serves as the headwaters of the Sacramento River and the source of much of the water that flows into the Delta. The Klamath-Cascade watershed receives 75% of the state's precipitation. According to the Pacific Forest Trust, ensuring continued healthy watershed function requires that 85% of the watershed remain intact as relatively natural forest. The Trust is working with private landowners in the region to conserve forests, and asserts that watershed protection through maintenance of healthy forests is the least costly and most effective approach to guaranteeing flows in the Sacramento River.

Proposed Law: This bill:

- 1) Declares it is state policy to recognize and define source watersheds as integral components of California's water system, and eligible for financing on an equivalent basis with other water infrastructure projects.
- 2) States that the source watersheds that supply the Shasta and Oroville reservoirs of the State Water Project (SWP) are of particular importance to maintaining the reliability of the California water advances.
- 3) States that the maintenance and repair of these watersheds are eligible for financing on the same basis as other SWP water collection and treatment infrastructure.
- 4) Specifies that nothing in this section is intended to modify existing grant programs or guidelines or constrain financing for source watersheds supplying local, state, or federal water systems.
- 5) Defines eligible maintenance and repair activities to include the following forest ecosystem management activities:
 - a) Upland vegetation management to restore watershed productivity and resilience.
 - b) Wet and dry meadow restoration.
 - c) Road removal and repair.
 - d) Stream channel restoration.
 - e) Conservation of private forests to preserve watershed integrity through permanent prevention of land use conversion, improved land management, achieved through, and secured with, conservation easements.
 - f) Other projects with a demonstrated likelihood of increasing conditions for water and snow attraction, retention, and release under changing climate conditions.

Staff Comments: Staff notes that the expectation of this language is unclear. Proponents of the bill assert that by clarifying that watershed improvements and repair should be treated the same as infrastructure, this bill will allow for more innovative financing for water projects, such as WIFIA.

Water Infrastructure Finance and Innovation Act. The Water Infrastructure Finance and Innovation Act (WIFIA) is a pilot program, jointly administered by the U.S. Environmental Protection Agency (US EPA) and the U.S. Army Corps of Engineers (Army Corps), to promote private-sector investment in water infrastructure by offering government-sponsored financing at below-market cost of capital. WIFIA provides a five-year pilot loan and guarantee program for water infrastructure development, commencing with \$40 million for 2015 and increasing to \$100 million in 2019.

The author may wish to more specifically clarify the intent and expectations of this bill. However, absent this clarity, the fiscal assumes that the bill will allow additional projects to be eligible for funding similar to that of the SWP. According to DWR, the state's 29 water agencies, with whom the state has water supply contracts, were charged \$506 million in 2015 (excluding power supply costs or bond payments) for the operation and

maintenance costs of the SWP's 20 reservoirs. If watershed restoration is expected to be funded on par with this (and water quality expenditures), costs for this bill could reach \$500 million or more.

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