

# Special Edition

Santa Ana Watershed Project Authority



## Water crisis: worst time for local revenue grab

By Phil Rosentrater, External Affairs Officer, Western Municipal Water District

As 2008's first rays of sunlight dawned in the Santa Ana Watershed, drinking water normally flowing to this region from the Delta had been shut down for a week. Ordered by a federal court as mitigation for an endangered species, continuing shutdowns may result in loss of 30 percent of the water otherwise delivered to 25 million Californians living, farming and operating businesses south of the Delta.

It could get worse before it gets better. With a list of additional endangered Delta species lawsuits waiting in the wings, the **Draft State Water Project Delivery Reliability Report 2007** released two weeks ago warns "continued declines in water supply reliability are likely if water delivery through the Sacramento-San Joaquin Delta remains unchanged."

Also starting New Year's Day, Metropolitan Water District cut its agricultural irrigation water deliveries from the Colorado River by 30 percent as the worst drought in modern history on the Colorado River withers into its ninth year.

Water is the principle resource differentiating our prosperous but semi-arid region from dusty desert ghost towns. A prolonged imported water shortage is certain to cause economic damage in our watershed unless new reliable water supplies are developed locally. California

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cannot afford to injure its already weakened economy. In the Saturday, February 16, 2008, edition of the *Press Enterprise*, the lead story in the Business section stated economic analysts predict 2008 will be the first year that San Bernardino and Riverside Counties will experience a net job loss since records have been kept.

Local water agencies in the Santa Ana watershed have been working diligently for decades to provide clean, reliable water supplies powering the state's most dynamic regional economy. The Santa Ana Watershed is the epicenter of the state economic recovery since 2004, creating 57% of the entire job growth in California. Capturing storm runoff for recharge into local groundwater basins, cleaning up groundwater through desalination, irrigating with highly treated wastewater in lieu of precious drinking water — all of these strategies are yielding new supplies of locally reliable water necessary for a strong economy.

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Unfortunately, the state legislature has taken these critical infrastructure funds from local water agencies when the state finds itself in a fiscal emergency. As a result, new

water supply projects needed to sustain our regional economy and local property values are delayed or not built. In times of water shortage — as we are now experiencing — the state raids leave our regional economy and the state vulnerable to the worst kind of economic damage.

The state legislature began looking to local water agencies for fiscal bailout starting in the economic recession of 1992, when state expenditures exceeded revenues. Obligated by Proposition 98 to divert a minimum of 40 percent of California's state income directly to K-12 education, rather than cut spending, the state legislature grabbed a huge portion of property taxes from water agencies to backfill the newly created "Educational Revenue Augmentation Fund" (ERAF).



### Proposition 1A

- **Compromise to Proposition 65.**
- **Prohibits any further State borrowing of local revenues unless the Governor proclaims a state of fiscal emergency.**
- **Suspension requires a two-thirds concurrence of the state legislature in both houses.**



At the time, the state legislators and the Governor promised to repay local taxpayer money when economic good times returned. Eventually the economy rebounded, but the state never kept its promise to repay property taxes "borrowed" from local government. To date, \$40 billion has been shifted, and the annual loss amounts to \$900 million. Perennial attempts to introduce bills to either repay the local funds taken by the state, or to curtail further shifts, have all failed.

When the state legislature attempted, in 2002, to expand the shift via SB 407 (Torlakson), a coalition of water agencies and special districts rose up to defeat the attempt. The next year, this coalition joined forces with cities and counties to gather support for Proposition 65, a Constitutional Amendment protecting local government from further state raids on local funds needed for vital local services. Early in 2004, the governor and legislature recognized their access to the local taxpayer ATM machine would be cut off if Proposition 65 passed. Facing a \$10 billion state deficit, the governor and legislators fashioned a compromise — Proposition 1A. There was just one hitch: The additional protection for local government revenues could be suspended under certain conditions, and in order to gain legislative and administration support for the measure local governments would have to allow yet another enormous shift of local property taxes to the state. A deal was struck and the implementation bill for another shift quickly passed through the legislature with minimal discussion or debate.

There is no debate on how California voters feel about Sacramento's appetite for local revenues. Voters sent an unequivocal message to the state in November 2004 — "Keep your hands off our local revenues!" — amending the state Constitution with Proposition 1A by an overwhelming 83.6 percent of the vote.



Proposition 1A prohibits any further state borrowing of local revenues unless the Governor proclaims a state of fiscal emergency calling for suspension of Proposition 1A. Suspension of Proposition 1A also requires a two-thirds concurrence of the state legislature in both houses.

California legislators and the governor must heed the voice of people who approved Proposition 1A by a margin of 83.6 percent, or else risk turning a water crisis and economic downturn into a statewide catastrophe. A water crisis is the worst time for anyone in Sacramento to consider taking local property taxes needed for critical water infrastructure.

Stewards of local taxpayers monies entrusted to public water agencies have a fiduciary duty to insist that every provision of Proposition 1A is fully met prior to any suspension of these Constitutional protections of water infrastructure. This begins with local governments vigorously opposing declaration of a fiscal emergency suspending Proposition 1A. Such action is not opposition to Proposition 1A; rather, it is insistence on conformity with the provisions of the Constitutional Amendment.

If the state legislature decides to “borrow” money from local governments, elected directors of water boards in every city, town and hamlet throughout California must exercise the fiduciary duty to hold Sacramento accountable.

After explaining the terms of repayment to the water customers from whom local water infrastructure dollars have been taken, every monthly bill to every water and wastewater customer in California should account – in bold, red capital lettering – the amount owed to taxpayers in that district and the number of days remaining until it is paid back by the state.

True emergencies are unforeseen, unanticipated, and largely uncontrollable. By contrast, problematic budget circumstances and causal factors (structural overspending) that are long recognized and widely known warrant concerted effort internally as a first priority before invoking extraordinary action constituting a true emergency. Upon closer examination, “fiscal emergency” seems like a curious way to describe the state finances. Clearly, there is no state revenue emergency as state income is not dropping precipitously but merely leveling off after growing steadily over the past five years — increasing by \$27 billion. Meantime rapid state spending over the same period occurred in spite of common knowledge of the structural deficit. Warnings were discussed in the media and repeatedly predicted by the Legislative Analyst Office.

Capitulation to a suspension of Proposition 1A for expediency rather than emergency is a clear violation of the spirit, intent, and specific provisions of Proposition 1A.

In a drastic unforeseen and uncontrollable circumstance — a true fiscal emergency — where Proposition 1A is actually suspended, water agency leaders must insist on fair and equitable treatment in any formula enacting Sacramento’s “borrowing” of local water infrastructure investments. Prior to borrowing any local revenues, the state legislature must pass stand-alone legislation detailing borrowing and repayment terms. Proposition 1A requires any borrowed funds to be repaid with interest within three years, and prohibits any further borrowing unless the monies of the prior borrowing are repaid.

This does not apply to the \$40 billion the state has “borrowed” over the past fifteen years with the original ERAF shift.

Nor does it apply to the most recent grab of \$700 million over two years as part of the deal with the legislature and governor enabling ballot placement of Proposition 1A. Water and wastewater agencies in general, and those in the Santa Ana Watershed in particular, were hit extremely hard under the terms of the Proposition 1A budget deal in 2004. Water and wastewater agencies picked up 80 percent of the tab. The Santa Ana Watershed agencies lost \$87.5 million in 2005, and again in 2006.

After 15 years of broken promises from the state to repay property taxes “borrowed” and shifted from local water agencies, water agency leaders recognize that another property tax shift will worsen the water crisis threatening to erode California’s economic capacity to recover from yet another enormous budget deficit. Tens of billions of dollars worth of critical water infrastructure projects have been delayed, or not built across California. **With imported water supply cutbacks already pinching long-term system flexibility, every dollar in local property tax is needed right here, right now to create reliable local water supplies necessary to avert a deepening water crisis.**



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**WWW.SAWPA.ORG**

## Upcoming Events - 2008


**March 26 9:00 a.m. - 3:00 p.m.**  
ACWA 2008 Legislative Symposium,  
Sacramento, CA  
Pre-registration deadline is March 12, 2008.  
Visit [www.acwa.com/events](http://www.acwa.com/events) for more information.

**May 1 9:00 a.m. - 3:00 p.m.**  
Riverside County Water Symposium, Morongo  
Casino Resort & Spa  
Registration is \$135 per person before April 21 or  
\$150 after April 21. Visit [www.rivco20.com](http://www.rivco20.com) for  
registration information.

Contact Andrew Serafini at 888/697-5836 or at  
[Andrew@tmgonline.com](mailto:Andrew@tmgonline.com) for more information.

**May 6 - 9**  
ACWA Spring Conference & Exhibition, Portola  
Plaza & Marriott Hotels, Monterey, CA  
Pre-registration deadline is April 4, 2008  
Visit [www.acwa.com/events](http://www.acwa.com/events) for more information.

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