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May 11, 2001

Hon. Bill Lockyer
Attorney General
1300 I Street, 17th Floor
Sacramento, California 95814

Attention: Ms. Tricia Knight
Initiative Coordinator

Dear Attorney General Lockyer:

Pursuant to Section 9005 of the Elections Code, we have reviewed the proposed initiative (File No. SA 2001 RF 0017) relating to local governments and natural gas.

Major Provisions

The California Constitution currently provides that “municipal corporations” may establish, purchase, and operate public works for power, heat, and other purposes (Article XI, Section 9). These municipal utilities are generally not subject to regulation by the California Public Utilities Commission (PUC). They typically operate on an “enterprise basis”—whereby spending on utility purposes is offset by charges to the users of those utilities.

Local government entities, however, are still governed by their enabling statutes. An entity such as an irrigation district, therefore, may not have the authority to undertake an activity like natural gas production or distribution if that role falls outside the district’s enabling legislation.

This measure amends the State Constitution to explicitly give counties, cities, public districts, municipal corporations, and irrigation districts specific powers relating to the acquisition, development, distribution, and sale of natural gas for public or private use. In addition, the measure gives those local governments the ability to undertake those activities outside of the regulation of the PUC. These changes could make it easier for some local governments to engage in natural gas activities.

Fiscal Effect

The initiative's fiscal impact would depend on the extent to which it resulted in expanded natural gas activities by local governments. Any increased spending by these entities would be offset by related increases in fees charged to energy users.

Summary

The measure would result in the following fiscal impact:

- Potential increased spending by local governments on natural gas-related activities, offset by fees charged to energy users.

Sincerely,

Elizabeth G. Hill
Legislative Analyst

B. Timothy Gage
Director of Finance