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December 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 Elections Code Section 9005, we have reviewed the proposed initiative (File No. SA2001RF0039), the Water Security, Clean Drinking Water, Coastal and Beach Protection Act of 2002.

Background

The state administers a number of programs to conserve and protect water resources and to develop and improve the reliability of water supplies. The state also provides grants and loans to local agencies and nonprofit organizations for similar purposes. Funding for these programs has come from various sources, including general obligation bonds. Since 1980, voters have approved about \$3.8 billion in bonds for various water-related purposes. It is estimated that all but about \$1 billion of the bonds authorized by these previous bond acts will have been spent or committed to specific projects as of June 2002.

Proposal

This initiative allows the state to sell \$3.44 billion in general obligation bonds for various water-related programs. Figure 1 summarizes the purposes for which the bond money would be available for expenditure by various state agencies and for loans and grants to local agencies and nonprofit associations.

Figure 1**Water Security, Clean Drinking Water, Coastal
And Beach Protection Act of 2002
Uses of Bond Funds***(In Millions)*

	Amount
Coastal Protection	\$950
• Wetlands restoration in or near urban areas	750
• Watershed protection	200
CALFED Bay-Delta Program	\$825
• Water use efficiency and conservation	180
• Water supply reliability	180
• Ecosystem restoration	180
• Watershed protection	90
• Water conveyance	75
• Delta levee restoration	70
• Water storage planning and studies	50
Integrated Regional Water Management	\$640
• Various water supply, pollution reduction, water treatment, flood management, and wetlands restoration projects	500
• Land acquisitions to improve/protect water quality, water supply reliability, and fish and wildlife habitat	140
Safe Drinking Water	\$435
• Small community drinking water system upgrades, contaminant removal and treatment, water quality monitoring, drinking water source protection	
Clean Water and Water Quality	\$370
• Water pollution prevention, water recycling, water quality improvements	100
• River parkway projects	100
• Coastal nonpoint source pollution control	100
• Lake Tahoe water quality improvements	40
• Land acquisitions to protect water quality in the Sierra Nevada-Cascade Mountain Region	30
Desalination and Water Treatment Project	\$100
• Desalination projects, treatment/removal of specified contaminants, drinking water disinfecting projects	
Colorado River Management	\$70
• Ecosystem restoration	50
• Canal lining	20
Water Security	\$50
• Protection of drinking water systems from terrorist attacks and other deliberate acts of destruction or degradation	
Total	\$3,440

Fiscal Effect

Bond Costs. For these bonds, the state would make principal and interest payments from the state's General Fund over a period of about 25 years. If the bonds were sold at an interest rate of 5 percent (the current rate for this type of bond), the cost would be about \$5.7 billion to pay off both the principal (\$3.44 billion) and interest (\$2.24 billion). The average payment would be about \$227 million per year. The actual costs will depend on the bond interest rates at the time of the bond sale.

However, total debt repayment costs to the state will be somewhat less. This is because the initiative provides that loans made for coastal nonpoint source pollution control (up to \$100 million) be repaid to the General Fund. As the measure does not specify the terms for these loans, the amount of interest payments to the General Fund in connection with these loan repayments is unknown. The repayment of these loans could reduce the General Fund costs by up to \$100 million (not including interest payments) over the life of the bonds.

Operational Costs. The state and local governments that buy or improve properties, or develop projects, with these bond funds may incur additional costs to operate or maintain the properties or projects. The amount of these potential additional costs is unknown.

Summary

In summary, the initiative would have the following fiscal effects:

- State cost of about \$5.7 billion over 25 years to pay off both the principal (\$3.44 billion) and interest (\$2.24 billion) costs on the bonds. Payments of about \$227 million per year.
- Potential costs of an unknown amount to state and local governments to operate or maintain properties or projects acquired or developed with these bond funds.

Sincerely,

Elizabeth G. Hill
Legislative Analyst

B. Timothy Gage
Director of Finance