

January 4, 2006

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. SA2005RF0131), "The Safe Drinking Water, Water Quality and Supply, Flood Control, River and Coastal Protection Bond Act of 2006."

Background

The state administers a number of programs to conserve and protect water resources, improve the reliability of water supplies, provide flood control, protect wildlife habitat, and support parks and other recreational opportunities. 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 \$13.7 billion in bonds for various resources-related purposes. It is estimated that about \$1.3 billion of the bonds authorized by these previous bond acts remain available for new projects in 2006-07, mostly for water-related projects.

Proposal

This initiative allows the state to sell \$5.4 billion in general obligation bonds for various water and conservation-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, primarily to local agencies and nonprofit associations.

Figure 1
Safe Drinking Water, Water Quality and Supply, Flood Control, River and Coastal Protection Bond Act of 2006
Uses of Bond Funds

(In Millions)

	Amount
Water Quality	\$1,525
<ul style="list-style-type: none"> • Integrated regional water management. 1,000 • Safe drinking water. 380 • Delta and agriculture water quality. 145 	
Protection of Rivers, Lakes and Streams	\$928
<ul style="list-style-type: none"> • Regional conservancies. 279 • Other projects—public access, river parkways, urban stream restoration, California Conservation Corps. 189 • Delta and coastal fisheries restoration. 180 • Restoration of the San Joaquin River. 100 • Restoration projects related to the Colorado River. 90 • Stormwater pollution prevention. 90 	
Flood Control	\$800
<ul style="list-style-type: none"> • State flood control projects—evaluation, system improvements, flood corridor program. 315 • Flood control projects in the Delta. 275 • Local flood control subventions. 180 • Flood plain mapping and assistance for local land use planning. 30 	
Sustainable Communities and Climate Change Reduction	\$580
<ul style="list-style-type: none"> • Local and regional parks. 400 • Urban water and energy conservation projects. 90 • Incentives for conservation in local planning. 90 	
Protection of Beaches, Bays and Coastal Waters	\$540
<ul style="list-style-type: none"> • Protection of various coastal areas and watersheds. 360 • Clean Beaches Program. 90 • California Ocean Protection Trust Fund—to manage marine resources, foster sustainable fisheries, and conserve marine wildlife. 90 	
Parks and Natural Education Facilities	\$500
<ul style="list-style-type: none"> • Acquisition, development, and restoration of the state park system. 400 • Local parks, nature education and research facilities. 100 	
Forest and Wildlife Conservation	\$450
<ul style="list-style-type: none"> • Wildlife habitat protection. 225 • Forest conservation. 180 • Protection of ranches, farms and oak woodlands. 45 	
Statewide Water Planning	\$65
<ul style="list-style-type: none"> • Planning for future water needs, water conveyance systems and flood control projects. 65 	
Total	\$5,388

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 30 years. If the bonds were sold at an average interest rate of 5 percent and repaid over 30 years, the cost would be about \$10.5 billion to pay off both the principal (\$5.4 billion) and interest (\$5.1 billion). The average payment would be about \$350 million per year. The actual costs will depend on the bond interest rates at the time of the bond sale.

Property Tax-Related Impacts. The measure provides funds for land acquisition by governments and nonprofit organizations, for various purposes. Under state law, property owned by government entities, and by nonprofit organizations under specified conditions, is exempt from property taxation. To the extent that this measure results in property being exempted from taxation due to acquisitions by governments and nonprofit organizations, local governments would receive reduced property tax revenues. We estimate these reduced property tax revenues would be several million dollars annually. Because existing law requires the state to make up for any property tax losses experienced by schools, we estimate about one-half of any losses resulting from this change would be offset by the state.

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, but could be tens of millions of dollars per year.

Summary

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

- State cost of about \$10.5 billion over 30 years to pay off both the principal (\$5.4 billion) and interest (\$5.1 billion) costs on the bonds. Payments of about \$350 million per year.
- Reduction in local property tax revenues of several million dollars annually, about one-half of which would be offset by state payments to schools to make up their revenue loss.

- Unknown costs, potentially tens of millions of dollars per year, 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

Michael C. Genest
Director of Finance