

November 15, 2007

Hon. Edmund G. Brown Jr.
Attorney General
1300 I Street, 17th Floor
Sacramento, California 95814

Attention: Ms. Krystal Paris
Initiative Coordinator

Dear Attorney General Brown:

Pursuant to Elections Code Section 9005, we have reviewed the proposed initiative "The Safe Drinking Water Act of 2008" (A.G. File No. 07-0069).

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, nonprofit organizations, and investor owned water utilities for similar purposes. Funding for these programs has come from various sources, including general obligation bonds. Since 1996, voters have approved about \$20.6 billion in bonds for various resources-related purposes. It is estimated that about \$8.2 billion of the bonds authorized by these previous bond acts remain available for new projects in 2008-09, a majority for water-related projects.

Proposal

This initiative allows the state to sell \$6.8 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 to local agencies, public utilities, mutual water companies, and nonprofit associations.

Figure 1	
Safe Drinking Water Act of 2008	
Uses of Bond Funds	
<i>(In Millions)</i>	
Delta Sustainability	\$2,400
<ul style="list-style-type: none"> • Projects to protect and enhance sustainability of Delta ecosystem. 1,400 • Protection and improvement to Delta-related levees, drinking water quality, transportation and other vital infrastructure, and fish and wildlife habitat; other projects that support legislatively approved Delta sustainability options. 1,000 	
Regional Water Supply Reliability	\$2,000
<ul style="list-style-type: none"> • Competitive grants for a wide variety of water supply reliability projects, with funding allocated among 12 hydrologic regions and subregions. 2,000 	
Groundwater Protection and Water Quality	\$1,100
<ul style="list-style-type: none"> • Grants and loans for a variety of water quality improvement projects, including wastewater treatment system improvements, stormwater management, and ocean protection. 700 • Projects preventing or reducing contamination of groundwater drinking water supplies. 400 	
Conservation and Pollution Cleanup	\$1,085
<ul style="list-style-type: none"> • Resource stewardship, ecosystem restoration, urban watershed, invasive species, and stormwater management projects. 1,085 	
Water Recycling	\$250
<ul style="list-style-type: none"> • Grants and loans for water recycling projects. 250 	
Total	\$6,835

Fiscal Effect

Bond Costs. The cost of these bonds would depend on interest rates in effect at the time they are sold and the time period over which they are repaid. The state would likely 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, the cost would be about \$13.3 billion to pay off both the principal (\$6.8 billion) and interest (\$6.5 billion). The average payment would be about \$445 million per year.

Operational Costs. The state and local governments that develop projects with these bond funds may incur additional costs to operate or maintain the projects. For example, there would be ongoing costs to operate a wastewater treatment plant constructed with the bond funds. The amount of these potential additional costs is unknown, but could be in the low hundreds of millions of dollars per year once the projects are completed and fully operational.

Summary

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

- State cost of about \$13.3 billion over 30 years to pay off both the principal (\$6.8 billion) and interest (\$6.5 billion) costs on the bonds. Payments of about \$445 million per year.
- Unknown, eventual costs, potentially in the low hundreds of millions of dollars per year, to state and local governments to operate or maintain projects developed with these bond funds.

Sincerely,

Elizabeth G. Hill
Legislative Analyst

Michael C. Genest
Director of Finance