

January 22, 2008

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 Comprehensive Safe Drinking Water, Water Supply Reliability, and Delta Restoration Act of 2008," version C (A.G. File No. 07-0092).

Background

The state administers a number of programs to conserve and protect water resources, store and deliver water, 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.

The state Department of Water Resources (DWR) administers the State Water Project (SWP), which functions as a water storage and delivery system, and includes facilities to convey water through the Sacramento-San Joaquin Delta (Delta). The authority to award contracts for the design and construction of Delta-related conveyance and surface storage projects that become part of SWP currently lies with DWR. Funding for construction, operation, and maintenance of state-run storage and conveyance has mostly been paid for by contractors of SWP water (including the repayment of revenue and general obligation bonds issued to fund construction), with a very limited amount (less than 4 percent) paid by other funds including the General Fund.

Proposal

Authority to Sell General Obligation Bonds. This initiative allows the state to sell \$11.7 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	
The Comprehensive Safe Drinking Water, Water Supply Reliability, and Delta Restoration Act of 2008 (Version C)	
Uses of General Obligation Bond Funds	
<i>(In Millions)</i>	
Statewide Water System Operation Improvement	\$3,500
<ul style="list-style-type: none"> • Direct expenditure for state, regional, and local surface storage projects; groundwater storage; reservoir reoperation; and conveyance to improve interregional system operations. 	3,500
Water Supply Reliability	\$2,700
<ul style="list-style-type: none"> • Competitive grants for a wide variety of water supply reliability projects, with funding allocated regionally. 	2,200
<ul style="list-style-type: none"> • Grants and direct expenditures for local surface water storage projects, groundwater storage projects, and water efficiency and reliability. 	450
<ul style="list-style-type: none"> • Project costs related to recreation, and fish and wildlife enhancement at State Water Project facilities. 	50
Delta Sustainability	\$2,400
<ul style="list-style-type: none"> • Projects to protect and enhance sustainability of Delta ecosystem. 	1,400
<ul style="list-style-type: none"> • 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
Groundwater Protection and Water Quality	\$1,600
<ul style="list-style-type: none"> • Grants and loans to manage or treat stormwater runoff. 	500
<ul style="list-style-type: none"> • Grants, loans, and direct expenditures for various drinking water quality improvement projects. 	500
<ul style="list-style-type: none"> • Cleanup of groundwater used for drinking water. 	400
<ul style="list-style-type: none"> • Grants for ocean protection and coastal watershed projects. 	100
<ul style="list-style-type: none"> • Projects for improvements to small community wastewater treatment systems. 	100
Conservation and Pollution Cleanup	\$1,240
<ul style="list-style-type: none"> • Ecosystem restoration, urban watershed protection, coastal watershed projects, and water rights acquisition. 	1,000
<ul style="list-style-type: none"> • Projects to protect watersheds, forest health, and water quality. 	155
<ul style="list-style-type: none"> • Projects to protect water supply from specified invasive species. 	85
Water Recycling	\$250
<ul style="list-style-type: none"> • Grants and loans for water recycling projects. 	250
Total	\$11,690

Creation of New Commission. This initiative also creates the California Water Infrastructure Commission as a new state agency for the purpose of awarding design and construction contracts for (1) Delta conveyance projects developed pursuant to the initiative and (2) specified surface storage projects funded by proceeds of the general obligation bonds authorized by the initiative and that would be part of SWP. Regarding Delta conveyance, the initiative provides criteria for conveyance improvements, without explicitly authorizing a preferred means of conveyance, such as “dual-conveyance.”

Funding for Commission’s Operations and for Projects Under Commission’s Purview. The initiative authorizes the commission to issue revenue bonds to cover its operational costs to carry out the responsibilities given to it under the initiative. The initiative also authorizes the commission to issue revenue bonds for unspecified Delta conveyance projects developed under the initiative and to provide funding for the *nonstate* share of costs of water storage projects that receive general obligation bond-funding support under the initiative.

Fiscal Effect

General Obligation 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 \$22.8 billion to pay off both the principal (\$11.7 billion) and interest (\$11.1 billion). The average payment would be about \$760 million per year.

Operational Costs for General Obligation Bond-Funded Projects. 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 hundreds of millions of dollars per year once the projects are completed and fully operational.

State Administrative Costs to Implement New Commission. The state administrative costs to implement the new commission, including set-up costs and annual operational costs, are unknown and would be funded by revenue bond funds authorized in the initiative.

Cost-Sharing by Local Governments. Of the \$11.7 billion of the general obligation bonds authorized by the initiative, up to about \$7 billion is available contingent upon matching funds being provided from nonstate sources. Much of the matching funds would likely come from local governments, including local public water agencies. The share of matching funds required from nonstate entities varies by program. The matching requirement can be waived or reduced under specified conditions. Of this amount,

cost-sharing by nonstate entities of at least \$3.5 billion is required for water storage projects and is likely to be incurred by local governments.

Summary

The measure would have the following fiscal effects:

- State cost of about \$22.8 billion over 30 years to pay off both the principal (\$11.7 billion) and interest (\$11.1 billion) costs on general obligation bonds authorized by the initiative. Payments of about \$760 million per year.
- Unknown eventual costs, potentially in the 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