August 22, 2017

Hon. Xavier Becerra
Attorney General
1300 I Street, 17th Floor
Sacramento, California 95814

Attention: Ms. Ashley Johansson
Initiative Coordinator

Dear Attorney General Becerra:

Pursuant to Elections Code Section 9005, we have reviewed the proposed initiative (A.G. File No. 17-0007, Amdt. #1) that would authorize $8 billion in general obligation bonds for water, parks, and other natural resources-related programs and projects.

BACKGROUND

Various Entities Play Roles in Protecting Natural Resources and Environment

Local, state, and federal agencies have various responsibilities to provide clean and reliable water, protect natural resources, and build and maintain parks. These responsibilities include enforcing laws, implementing programs, and operating and maintaining infrastructure.

Water Supply and Quality. Government agencies spend roughly $30 billion annually in the water sector, including to provide clean and reliable water for urban and agricultural uses, treat wastewater, and manage floods. Over three-quarters of this spending is done at the local level, such as by water districts, cities, and counties. About 80 percent of this local spending is paid for by individuals as ratepayers of water and sewer bills. Other local funding sources include state funds, federal funds, and local taxes. The state and federal governments also play important roles in the state's water system, such as by operating key water supply infrastructure that moves water around the state, as well as by setting and enforcing water quality standards.

Natural Resources Protection. There are numerous governmental departments and conservancies responsible for the preservation and restoration of natural habitats in California. Current efforts include conserving existing wildlands, restoring degraded watersheds and coastal habitats, and assisting in the recovery of endangered or threatened species. The state is budgeted to spend about $5 billion in 2017-18 on various natural resources programs (including water and parks-related programs), mostly from the state's General Fund, bonds, and various other state funds. (The General Fund is the state's main operating account, which pays for education, prisons, health care, and other services.)

State and Local Parks. The state and local governments operate thousands of parks throughout California for the purposes of recreation, natural resource protection, and historical preservation. These parks include natural preserves, beaches, recreation areas, and historical monuments. The state operates about 280 parks at a cost of about $700 million annually, funded mostly from the state's General Fund and park user fees. Local governments operate thousands of parks and recreation programs at a cost of a few billion dollars annually.

Past Water, Parks, and Other Resources Bonds Approved by Voters

As shown in Figure 1, since 2000 voters have approved almost $27 billion in water, parks, and other resources-related general obligation bonds in statewide elections. The state repays these bonds, with interest, using the state's General Fund. The state currently pays about $1 billion annually for these previously approved and issued bonds.

Figure 1

Water, Parks, and Other Resources-Related Bonds Approved by Voters Since 2000

(In Billions)

Proposition (Year)	Purpose	Amount Authorized
12 (2000)	Parks and natural resource protection	$2.1
13 (2000)	Water supply, water quality, and flood management	1.9[a]
40 (2002)	Natural resource protection and parks	2.6
50 (2002)	Water quality, water supply, and coastal protection	3.3[a]
1E (2006)	Flood management	4.0[a]
84 (2006)	Water quality, water supply, flood protection, natural resource protection, and parks	5.3[a]
1 (2014)	Water supply and quality	7.5
Total		**$26.7**

[a] Reflects amount authorized by voters as adjusted by Proposition 1 (2014), which reallocated some previously approved bonds for other purposes.

PROPOSAL

This measure provides $8 billion in general obligation bonds for various water, natural resources, and parks-related programs and projects.

Uses of Funds

As shown in Figure 2, the measure provides bond funding for various purposes related to (1) safe drinking water and water quality projects, (2) improving climate resilience of natural systems, and (3) state and local parks. Each of these categories of spending are described in more detail below.

Figure 2

Uses of Proposed Bond Funds

(In Millions)

Purpose	Amount
Safe Drinking Water and Water Quality Projects	**$3,990**
Water quality and reliable drinking water	$700
Multibenefit stormwater management	600
Mulitbenefit flood management projects	500
San Joaquin River management and restoration	400
Sustainable groundwater management	300
Water recycling and advanced treatment	300
Los Angeles River restoration and protection	270
Salton Sea restoration	240
Watershed restoration and protection in the Sierra Nevada and Tahoe	200
Improved conditions for fish and wildlife	200
Migratory birds protection	100
Water conservation and water-use efficiency	100
Salmon and steelhead fisheries restoration	50
Water data	30
Improving Climate Resilience of Natural Systems	**$2,200**
Protection and restoration of rivers, lakes, and natural lands	$570
Natural resources restoration and protection	305
Protection and public access to beaches and coastal resources	230
San Francisco Bay Area Conservancy Program	200
Coastal forest watersheds	150
Urban greening and climate resiliency	145
Coastal protection	100
Restoration of Southern California steelhead habitat	80
Removal and conversion of industrial facilities in coastal watersheds	70
Watershed restoration on agricultural and forest lands	60
Regional conservation investment strategies	50
Coastal adaptation	50
Wildlife preservation on private land	50
Research and training to improve natural land management	50
Santa Monica Bay and Ventura County watersheds	50
California Conservation Corps	30
Resources-related job training and education	10
State and Local Parks	**$1,800**
Competitive grants for local parks in park-poor neighborhoods	$800
State park facilities	500
Per capita grants for local parks	400
Nature education and research grants	100
Total	**$7,990**

Safe Drinking Water and Water Quality Projects ($4 Billion). The measure provides $4 billion for various programs and projects designed to improve water quality for drinking and the environment, as well as to increase water supply and help manage floods. This total includes grants and loans primarily for local government agencies to improve drinking water and wastewater treatment, manage stormwater runoff, implement flood management projects that also benefit the environment, increase groundwater supplies, and develop water recycling and other advanced water treatment projects. This funding would also support protection and restoration activities in specified areas of the state and to benefit certain species.

Improving Climate Resilience of Natural Systems ($2.2 Billion). The measure provides a total of $2.2 billion for various resources programs and projects, mostly related to protection and restoration of natural habitats consistent with the state's climate adaptation goals. Funding would be administered by various state departments and conservancies and, in some cases, would be available as grants to local governments or nonprofit organizations for local projects. As shown in the figure, some portion of this funding would also support water-related projects.

State and Local Parks ($1.8 Billion). The measure provides a total of $1.8 billion for state and local parks projects. Of this amount, $1.2 billion would be to create or improve local parks, with funding distributed either through competitive grants or regionally on a per capita basis. Most of the remaining funding would be for restoration and improvement projects at state parks.

Other Provisions

State Oversight. The measure requires (1) quarterly updates on the Internet regarding specific project information, (2) audits of project expenditures, (3) the creation of a citizens advisory committee, and (4) a report to the Legislature by 2027 on expenditures made and public benefits achieved.

Administrative Costs. Up to 5 percent of funds provided under this measure can be used for administrative costs by administering departments. In addition, up to 10 percent of funds can be used for planning and monitoring activities related to the design, selection, and implementation of projects.

Local Cost-Sharing Requirements. Of the $8 billion in funds made available by the measure, roughly one-third is available only if recipients—mostly local governments—provide funding to support the projects. This requirement primarily applies to the drinking water and water quality projects funded by this measure. The local cost-share requirement ranges from 20 percent to 50 percent, depending on the specific program requirements, but can be reduced or waived in some cases as discussed below.

Disadvantaged Communities. The measure includes several provisions designed to assist disadvantaged (lower-income) communities. For many of the programs funded under this measure, funds would be prioritized to disadvantaged communities, and administering agencies can reduce or waive local matching requirements in some cases. In addition, generally, up to 10 percent of the funds provided under the measure can be used by state agencies to provide technical assistance and outreach to disadvantaged communities.

FISCAL EFFECTS

Fiscal Effects on State Government. This measure would allow the state to borrow up to $8 billion by selling additional general obligation bonds to investors, who would be repaid with interest using the state's general tax revenues. The cost to the state of repaying these bonds would depend on various factors—such as the interest rates in effect at the time they are sold, the timing of bond sales, and the time period over which they are repaid. We assume that (1) the interest rate for bonds would average 5 percent, (2) they would be sold over the next ten years, and (3) all bonds would be issued for a 30-year term. Based on these assumptions, the cost to taxpayers to repay the bonds would average about $390 million annually over the next 40 years—totaling $15.6 billion to pay of both principal ($8 billion) and interest ($7.6 billion). Annual debt service costs would ramp up in the initial few years, peak at about $520 million per year, and ramp down in the final few years.

Fiscal Effects on Local Governments. Some of the bond funding would be available for local government water, natural resources, and parks projects. The availability of state bond funds for local projects would affect how much local governments spend on these projects. In many cases, the availability of state bonds could reduce local spending. For example, this would occur in cases where the state bond funds replaced monies that local governments would have spent on projects anyway. Local savings would also occur in cases where the availability of state bond funds allowed local governments to build projects that reduced operating costs, such as by increasing efficiency or using a new water source that allows them to purchase less water.

However, in some cases, state bond funds could increase total spending on projects by local governments. For example, the availability of bond funds might encourage some local governments to build additional or substantially larger projects than they would otherwise. Funded projects could also increase future operating costs, such as for new or expanded parks.

The net fiscal effect on individual local governments would vary depending on the specific projects they undertake, what grants or loans they receive because of this bond, and the amount of funding they provide to support the projects. These costs or savings could affect rates charged to customers, such as on water bills. However, the annual net effect on local governments statewide is likely to be small relative to the overall amount spent by local governments. Therefore, any effect on rates would likely be small for most ratepayers.

Summary of Fiscal Effects. This measure would have the following fiscal effects:

- State costs of $15.6 billion to pay off principal ($8 billion) and interest ($7.6 billion) on bonds over a 40-year period. Annual payments would average $390 million. Annual payments would be lower than this average in the initial and final few years, and somewhat higher in the intervening years.

- Varying fiscal effects on individual local governments depending on specific projects undertaken, amount of grants and loans received, and amount of local financial support provided.

Sincerely,

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Mac Taylor
Legislative Analyst

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Michael Cohen
Director of Finance