



January 11, 2018

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 statutory initiative that would authorize \$2 billion in general obligation bonds to provide funding for remediation in homes, schools, and senior facilities (A.G. File No. 17-0049, Amendment No. 1).

Background

Many Homes Contain Hazards. Many homes and other buildings in California contain hazards—such as lead, mold, and asbestos—that have been linked with various health problems. For example, exposure of children to lead-based paint is associated with developmental delays and behavioral issues. These hazards occur primarily in buildings constructed before 1978, which comprise about 60 percent of homes in the state.

Litigation About Lead-Based Paint in Homes. In 2000, several cities (Oakland, San Diego, and San Francisco) and counties (Alameda, Los Angeles, Monterey, San Mateo, Santa Clara, Solano, and Ventura) filed a law suit against manufacturers of lead-based paint, arguing that their promotion of lead-based paint despite its known health effects had contributed to a “public nuisance” that presented a danger to the health of Californians. In 2014, the court ruled in favor of the cities and counties. The court ordered the creation of a program funded by the paint manufacturers to discover and clean up lead-based paint in homes in the localities party to the law suit. In 2017, an appellate court largely upheld the ruling in favor of the cities and counties. Under the appellate court ruling, funding from paint manufacturers for local lead abatement programs likely will total several hundred million dollars.

Proposal

Bond Funds for Remediation of Hazards. The measure authorizes the state to sell \$2 billion in general obligation bonds to fund the remediation of environmental and structural hazards—such as mold, asbestos, radon, water, pests, ventilation, and lead hazards—in homes, schools, and senior facilities. Of this total, \$1.5 billion would be given as grants to owners of housing, with \$1.2 billion set aside for single family and small multifamily homes. In addition, \$400 million would be given to schools and \$100 million to senior housing and assisted living facilities.

Lead-Based Paint Not a Public Nuisance. The measure also declares that lead-based paint in or on housing is not a public nuisance, seemingly reversing the recent court rulings discussed above.

Fiscal Effect

Increased Debt Service Costs. The cost to the state of issuing these bonds would depend on the timing of the bond sales, the interest rates in effect at the time they are sold, and the time period over which they are repaid. The state would likely issue these bonds over a period of about five years and make principal and interest payments from the state's General Fund over a period of about 35 years. If the bonds were sold at an average interest rate of 5 percent, the cost would be \$3.9 billion to pay off both principal (\$2 billion) and interest (\$1.9 billion). Under these assumptions, the average payment would be about \$110 million per year. Annual debt service payments would ramp up in the initial few years, peak at \$130 million per year, and ramp down in the final few years. (These estimates are not adjusted for inflation.)

Reduced Funding for Lead Abatement Programs. The measure appears to reverse recent court rulings requiring paint manufacturers to fund lead abatement programs in several communities. This would reduce funding for these programs by several hundred million dollars. It also appears to preclude other communities from filing similar law suits in the future, eliminating the potential for those communities to obtain similar funding.

Effects on Property Values. The measure could have several effects on property values and, in turn, local government property tax revenues. Some effects would be positive. For example, the use of bond funds to reduce hazards in homes likely would increase those homes' values. On the other hand, some effects may be negative. For example, homeowners that would have performed lead-based paint clean up funded by paint manufacturers—which likely would have increased those homes' values—would no longer do so. Overall, the measure's net effect on property values and property tax revenues is unclear.

Summary of Fiscal Effect

This measure would have the following fiscal effects:

- State General Fund costs of \$3.9 billion to pay off principal (\$2 billion) and interest (\$1.9 billion) on bonds over a period of 35 years. Annual payments would average \$110 million, with payments lower in the initial and final few years and somewhat higher in the intervening years.
- Reduction of several hundred million dollars or more in funding for local programs to clean up lead-based paint in homes.

Sincerely,

Mac Taylor
Legislative Analyst

Michael Cohen
Director of Finance