LAO

PROPOSITION 4

Authorizes Bonds for Safe Drinking Water, Wildfire Prevention, and Protecting Communities and Natural Lands From Climate Risks. Legislative Statute.

ANALYSIS OF MEASURE

BACKGROUND

State Pays for Natural Resources and Climate Activities. The state pays for many activities aimed at conserving natural resources, as well as responding to the causes and effects of climate change ("natural resources and climate activities"). These activities focus on increasing the amount of water available for use, conserving land to benefit fish and wildlife, increasing recreational opportunities at state and local parks, and other purposes. In some cases, state government agencies perform natural resources and climate activities. In other cases, the state provides grants and loans to local governments, not-for-profit organizations, and businesses to support similar activities.

State Pays for Natural Resources and Climate Activities in Various Ways. Sometimes the state pays up front for natural resources and climate activities with money it already has. In other cases, the state pays for these activities by using bonds. Bonds are a way that the state borrows money and then repays the money plus interest over time. (For more information about bonds, please see "Overview of State Bond Debt" later in this guide.)

Over the past decade, the state has spent an average of about $13 billion each year (annually) on natural resources and climate activities. About 15 percent of this amount has been from bonds. The state still has a few billion dollars remaining from prior natural resources and climate bonds that have not yet been committed for specific activities.

Local and Federal Governments Also Pay for Similar Activities. In addition to the state funding, other entities also pay for natural resources and climate activities. For example, in some areas, local governments pay for water and energy infrastructure as part of their roles as local utilities. Local governments such as cities and counties also pay for local parks. The federal government also pays for various natural resources and climate activities. For example, the federal government provides money to improve local drinking water systems and to build energy infrastructure.

PROPOSAL

New Bond for Natural Resources and Climate Activities. Proposition 4 allows the state to sell a $10 billion bond for natural resources and climate activities. Much of the bond money would be used for loans and grants to local governments, Native American tribes, not-for-profit organizations, and businesses. Some bond money also would be available for state agencies to spend on state-run activities.

Funding Would Pay for a Variety of Activities. As shown in Figure 1, Proposition 4 pays for activities within eight broad categories, each with different goals. Some of the main activities in each category are summarized below:

Figure 1

Key Goals of Proposition 4 Bond Funds

(In Millions)

Category	Key Goals	Amount
Drought, Flood, and Water Supply	Increase the amount and quality of water available for people to use and reduce the risk of flooding.	$3,800
Forest Health and Wildfire Prevention	Improve the health of forests and protect communities from wildfires.	1,500
Sea-Level Rise and Coastal Areas	Reduce the risks from sea-level rise, restore coastal areas, and protect fish.	1,200
Land Conservation and Habitat Restoration	Protect and restore natural areas.	1,200
Energy Infrastructure	Support the state's shift to more renewable sources of energy, such as offshore wind.	850
Parks	Expand, renovate, and repair local and state parks.	700
Extreme Heat	Reduce the effects of extreme heat on communities.	450
Farms and Agriculture	Help farms respond to the effects of climate change and become more sustainable.	300
Total		**$10,000**

- ***Drought, Flood, and Water Supply ($3.8 Billion).*** Roughly half of this money would be for activities to increase the amount and quality of water available for people to use ($1.9 billion). This would include storing water so it can be used during future droughts, as well as cleaning polluted water to make it safe to drink. Money would also be used to help reduce the risk of floods, such as by repairing dams and capturing and reusing stormwater ($1.1 billion). The rest of the money would be used for various activities, such as restoring rivers and lakes.
- ***Forest Health and Wildfire Prevention ($1.5 Billion).*** All of this money would support activities to improve the health of forests and reduce the risk of severe and destructive wildfires. This would include thinning trees in forests that are overgrown

and clearing vegetation near where people live. Money would also be used for other activities, such as helping homeowners make their properties more resistant to wildfire damage.

- ***Sea-Level Rise and Coastal Areas ($1.2 Billion).*** Most of this money would pay for activities to restore coastal areas and protect them from the effects of rising sea levels ($890 million). This could include restoring wetlands so they can serve as buffers to rising sea levels. The rest of this money would be used to improve ocean habitats and protect fish and other marine wildlife ($310 million).
- ***Land Conservation and Habitat Restoration ($1.2 Billion).*** This money would be used to protect and restore land for the benefit of fish and wildlife. For example, it could support purchasing land to set aside so that it is not developed.
- ***Energy Infrastructure ($850 Million).*** More than half of this money would support the development of wind turbines off the California coast ($475 million). Most of the remaining money would pay for building infrastructure such as transmission lines to carry electricity long distances ($325 million). The rest of the money would pay for projects to build large batteries that store electricity for when it is needed ($50 million).
- ***Parks ($700 Million).*** The bulk of this money would support various activities that expand recreational opportunities at parks or reduce the impacts of climate change on parks ($300 million). These activities could include adding new trails and parking areas. Some of this money would provide grants to local communities to build new parks or renovate existing parks ($200 million). The rest of this money would be used to repair state parks and provide nature education ($200 million).
- ***Extreme Heat ($450 Million).*** Much of this money would pay for activities focused on protecting communities from extreme heat ($200 million). These activities could include adding trees and greenspaces. *Money would also support places for people to go during heatwaves or disasters ($100 million).* The rest of the money would provide grants for local communities to conduct activities that provide environmental benefits, such as reducing air pollution ($150 million).
- ***Farms and Agriculture ($300 Million).*** Much of this money would be used for activities that encourage farmers to improve soil health, reduce air pollution, and use less water ($105 million). This money would also support community gardens and farmers' markets, such as by purchasing shade canopies ($60 million). The rest of this money would support a range of other activities, such as purchasing vans to transport farmworkers and conserving farmland.

Establishes Other Requirements for the Use of Funds. Proposition 4 requires the bond money to be used in certain ways. For example, at least 40 percent of bond money must be used for activities that directly benefit communities that have lower incomes or are more vulnerable to the impacts of climate change. Proposition 4 also requires regular public reporting of how the bond money is spent.

Fiscal Effects

Increased State Costs of About $400 Million Annually for 40 Years to Repay the Bond. The estimated cost to repay the bond would be **about $400 million annually over a 40-year period**. Payments would be made from the state General Fund. (The General Fund is the account the state uses to pay for most public services, including education, health care, and prisons.) This would be less than one-half of 1 percent of the state's total General Fund budget. Since the state has to pay interest on the money it borrows, the total cost of the bond would be about 10 percent more (after adjusting for inflation) than if the state paid up front with money it already has.

Likely Reduced Local Costs for Natural Resources and Climate Activities. The availability of state bond funds could have various fiscal effects on local governments. In some cases, the additional state funding could replace local government money that would otherwise be needed to pay for a project. For example, this could include using bond funds to help support an essential water treatment facility the local government otherwise would have needed to fund by itself. In other cases, however, the availability of state funds could encourage local governments to spend more money to build larger projects than they otherwise would. For example, this could include adding additional amenities to a local park. On net, Proposition 4 likely would result in savings to local governments. The amount of these savings is uncertain but could average tens of millions of dollars annually over the next few decades.

Potential State and Local Savings if Funding Prevents Disasters. To the extent the bond funds result in completing activities that reduce the risk or amount of damage from disasters, it could reduce state and local costs for responding to and recovering from those events. For example, improving a levee could reduce the amount of flooding that occurs. Additionally, thinning trees in a forest could reduce the severity of wildfires. The amount of such potential savings is uncertain.

YES/NO STATEMENT

A **YES** vote on this measure means: The state could borrow $10 billion to fund various activities aimed at conserving natural resources, as well as responding to the causes and effects of climate change.

A **NO** vote on this measure means: The state could not borrow $10 billion to fund various activities aimed at conserving natural resources, as well as responding to the causes and effects of climate change.

SUMMARY OF LEGISLATIVE ANALYST'S ESTIMATE OF NET STATE AND LOCAL GOVERNMENT FISCAL IMPACT

- Increased state costs of about $400 million annually for 40 years to repay the bond.

State Bond Cost Estimate

Amount borrowed	$10 billion
Average repayment cost	$400 million per year over 40 years
Source of repayment	General tax revenue

BALLOT LABEL

Fiscal Impact: Increased state costs of about $400 million annually for 40 years to repay the bond.