

June 12, 2018

**Initiative Statute: Authorizes Bonds to
Fund Projects for Water Supply and Quality,
Watershed, Fish, Wildlife, Water Conveyance,
and Groundwater Sustainability and Storage**

L E G I S L A T I V E A N A L Y S T ' S O F F I C E

Presented to:

Assembly Committee on Water, Parks, and Wildlife

Hon. Eduardo Garcia, Chair

and

Assembly Budget Subcommittee No. 3

On Resources and Transportation

Hon. Richard Bloom, Chair





LAO Role in Initiative Process



Fiscal Analysis Prior to Signature Collection

- State law requires our office, alongside the Department of Finance, to prepare an impartial fiscal analysis of each initiative.
- State law requires this analysis to provide an estimate of the measure's fiscal impact on state and local governments.
- A summary of the fiscal impact is included on petitions that are circulated for signatures.



Analysis After Measure Receives Sufficient Signatures to Qualify for the Ballot

- State law requires our office to provide impartial analyses of all statewide ballot propositions for the statewide voter information guide.
- This analysis includes a description of the measure and its fiscal effects.
- We are currently in the process of preparing these materials for initiatives that have qualified—or have a reasonable likelihood of qualifying—for the November 2018 ballot.



Background



Most Spending on Water Is by Local Governments

- Local agencies spend about \$25 billion per year on water-related activities, such as providing drinking water, supplying water for farming, and protecting communities from floods.
- Residents pay for the majority of this spending when they pay their water and sewer bills.



State Also Spends Money on Water, as Well as Environmental Projects

- The state gives grants and loans to local agencies to help pay for part of their water projects.
- The state also spends money on projects to improve the natural environment, including protecting habitats for fish, birds, and other wildlife. The state often provides most of the funding for these projects.
- In recent years, the state has spent about \$4 billion per year to support water and environmental projects.



Voter-Approved Bonds Are a Common Source of State Funding for These Projects

- Since 2000, voters have approved about \$31 billion in general obligation (GO) bonds to pay for water, parks, and environmental projects. This includes the \$4 billion that was just approved through Proposition 68.
- The state repays GO bonds from the General Fund. In 2017-18, the state is spending about \$1 billion in debt service for previous water and environmental GO bonds.



Proposal

\$8.9 Billion Bond for Water and Environmental Projects

- The proposition authorizes the state to sell \$8.9 billion in new GO bonds for various water and environmental projects, as summarized in the figure.
- Within the broad categories shown in the figure, the proposition includes around 100 subcategories for how certain amounts must be spent, including for particular regions of the state or on specific projects.

| Uses of Proposed Bond Funds | | |
|------------------------------------|---|----------------|
| <i>(In Millions)</i> | | |
| Category | Primary Activities | Amount |
| Watershed lands | Protect, restore, and improve the health of watershed lands in specified areas of the state to increase the amount and quality of water. | \$2,495 |
| Water supply | Improve and increase: drinking water and wastewater treatment, water recycling, collection and clean-up of rainwater, and water conservation. | 2,130 |
| Fish and wildlife habitat | Improve habitats for fish and wildlife, including by restoring streams and wetlands to more natural conditions. | 1,440 |
| Water facility upgrades | Make connections and repairs to existing dams, canals, and reservoirs. | 1,227 |
| Groundwater | Clean up, recharge, and manage groundwater. | 1,085 |
| Flood protection | Reduce flood risk, including by strengthening riverbanks, expanding floodplains, and making changes to existing reservoirs. | 500 |
| Total | | \$8,877 |

**Continuously Appropriates All Funding**

- The Legislature would not appropriate funds through the annual budget process. Instead, departments would receive the funding when they are ready to spend it.

**Distributes Most Funding Through Grants**

- The majority of the funds would be given as grants to local government agencies, Indian tribes, nonprofit agencies, and private water companies for specific projects.
- For some funding categories—particularly those related to water supply—grant recipients would have to match grant funds with a like amount of local funds.
- A small portion of the funding would be for state departments to carry out projects.

**Provides Funding for “Disadvantaged Communities”**

- The proposition has several requirements to help disadvantaged communities (those with lower incomes). For example, for a few spending subcategories, the proposition requires that funding be spent on projects that benefit such communities.
- Also, in many cases disadvantaged communities that receive grants would not have to pay the local share of costs discussed above.



Fiscal Effects



State Bond Repayment Costs

- We estimate the cost to state taxpayers to repay this bond would total \$17.3 billion to pay off both principal (\$8.9 billion) and interest (\$8.4 billion).
- This would result in average costs of about \$430 million annually over the next 40 years from the General Fund.



Local Savings and Costs to Complete Projects

- In cases where state bonds replace funding that local governments would have spent on projects anyway, this will result in local savings.
- In cases where local governments choose to build additional or substantially larger projects than they would if state funds were not available, they could incur some additional costs—particularly in cases when the bond requires a local cost share.