Proposition 3

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

Yes/No Statement

A **YES** vote on this measure means: The state could sell $8.9 billion in general obligation bonds to fund various water and environmental projects.

A **NO** vote on this measure means: The state could not sell $8.9 billion in general obligation bonds to fund various water and environmental projects.

Summary of Legislative Analyst's Estimate of Net State and Local Government Fiscal Impact

- Increased state costs to repay bonds averaging about $430 million per year over the next 40 years.
- Savings to local governments, likely averaging a couple hundred million dollars annually over the next few decades.

State Bond Cost Estimates

Authorized new borrowing	$8.9 billion
Average annual cost to pay off bonds	$430 million
Likely repayment period	40 years
Source of repayment	General Fund tax revenues

Ballot Label

Fiscal Impact: Increased state costs to repay bonds averaging $430 million per year over 40 years. Local government savings for water-related projects, likely averaging a couple hundred million dollars annually over the next few decades.

BACKGROUND

Californians Get Water From Several Sources. Most of the water used for drinking and farming in California comes from rain and melted snow. Rain and snow flow into streams and rivers, many of which start in the mountains. The areas where these streams and rivers begin are referred to as "watersheds." California has built dams, reservoirs, and canals to store water and deliver it around the state. Water is also pumped from underground (referred to as "groundwater"), especially during dry years when not as much rain and snow falls. A small share of the state's water comes from other sources, such as cleaning and reusing the wastewater that households and businesses send into sewers (referred to as "water recycling").

Most Spending on Water Is by Local Governments. Local government agencies—usually water districts, cities, and counties—fund most of the projects that provide clean water for people to drink, supply water for farming, and protect communities from floods. These agencies spend about $25 billion each year on these types of water-related activities. 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 government agencies to help pay part of the costs of some of their water projects. The state also spends money on projects to improve the natural environment, including protecting habitats that are home to fish, birds, and other wildlife. In many cases, the state—rather than local governments—provides most of the funding for these environmental projects. Sometimes state departments carry out environmental projects themselves, and sometimes they give grants to local governments, nonprofit organizations, and other organizations 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. The state mainly uses general obligation (GO) bonds and the state's General Fund to pay for water and environmental projects. GO bonds are a way to borrow money. Voters give the state permission to sell bonds to investors, and the state uses that money as “up-front” funding for projects. The state then repays the investors over time, with interest, from the General Fund—the state’s main operating account, which also pays for education, prisons, health care, and other services. (For more information on the state’s use of bonds, see “Overview of State Bond Debt” later in this guide.)

Since 2000, voters have approved about $31 billion in GO bonds in statewide elections to pay for different types of water and environmental projects. Of this amount, roughly one-third was still available to pay for new projects as of June 2018. This includes $4 billion that was approved by voters through Proposition 68 in June 2018.

PROPOSAL

$8.9 Billion Bond for Water and Environmental Projects. This proposition allows the state to sell $8.9 billion in new GO bonds for various water and environmental projects. These funds fall into six broad categories, as summarized in Figure 1.

Figure 1

Uses of Proposition 3 Bond Funds

(In Millions)

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 expanding floodplains and repairing reservoirs.	500
Total		**$8,877**

Within these broad categories, the proposition includes around 100 subcategories for how certain amounts must be spent, including for particular regions of the state or on specific projects. The proposition's broad spending categories include the following:

- ***Watershed Lands ($2.5 Billion).*** This category funds projects to improve the conditions of watershed lands, which include forests, meadows, wetlands, and areas near rivers. Funded projects must protect or improve the supply and quality of the water that comes from these lands. Many of these projects would also have environmental benefits, such as improving habitat for fish and wildlife or reducing the risk of forest fires. This funding category includes about 50 subcategories with special requirements, including that certain amounts be spent in specific areas of the state. For example, the proposition provides $250 million for the forests in the Sierra Nevada Mountains and $200 million for the Salton Sea in Southern California.

- ***Water Supply ($2.1 Billion).*** This funding is for projects that will increase the amount of water available for people to use. This includes money for collecting and cleaning up rainwater ($550 million), cleaning up drinking water ($500 million), and recycling wastewater ($400 million). The proposition also provides funding for water conservation activities that decrease how much water people use ($300 million). This could include paying some of the costs for people to install low-flow toilets or replace their lawns with plants that use less water.

- ***Fish and Wildlife Habitat ($1.4 Billion).*** This category funds projects to improve fish and wildlife habitat. The types of projects could include increasing the amount of water that flows to a wetland or river, as well as buying undeveloped land to keep it in a natural state. The proposition targets some of the funding for projects to help certain species, including native fish in the Central Valley ($400 million), salmon and steelhead trout ($300 million), and migratory birds ($280 million).

- ***Water Facility Upgrades ($1.2 Billion).*** This funding is for four specific projects to improve the availability of water in certain areas of the state. These projects include: (1) repairing the federally owned Madera and Friant-Kern canals in the Central Valley ($750 million), (2) building canals and other types of projects that connect local reservoirs and communities in the San Francisco Bay region ($250 million), (3) repairing the state-owned Oroville Dam in Butte County ($200 million), and (4) planning changes for the North Bay Aqueduct that serves Solano and Napa Counties ($5 million).

- ***Groundwater ($1.1 Billion).*** This category funds projects related to groundwater storage to make sure groundwater will be available in future years. This includes activities to clean up groundwater by removing salts to make it more usable ($400 million). Funding will also be used for projects that help water to soak back into the ground so that it can be used in the future (known as "groundwater recharge").

- ***Flood Protection ($500 Million).*** This funding is for projects that reduce the risk from floods. These projects could include expanding floodplains (which provide areas where floodwaters can spread without causing much harm) and repairing reservoirs. Some of these projects would provide other benefits, such as improving fish and wildlife habitat, increasing water supplies, and improving recreation opportunities. Some of this funding is for projects in specific areas of the state, including the Central Valley ($200 million) and the San Francisco Bay Area ($200 million).

Distributes Most Funding Through Grants. The proposition provides funding to more than a dozen different state departments. The proposition continuously appropriates the bond funds to these departments, which is different from most water and environmental bonds. This means that the Legislature would not spend the funds in the annual state budget. Instead, departments would automatically receive funding when they are ready to spend it. Departments would spend some of the funds to carry out projects themselves. However, almost all of the funds would be given as grants to local government agencies, Indian tribes, nonprofit organizations, and private water companies for specific projects. For some funding subcategories—particularly those related to increasing or protecting water supply—grant recipients would have to provide at least $1 in local funds for each $1 of grant funding they receive.

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

Provides Greenhouse Gas (GHG) Funds for Water Projects. Separate from the $8.9 billion bond, this proposition also changes how the state must spend some existing funding related to GHGs. The state has passed laws to reduce global warming by limiting the amount of GHGs that are released in California. These efforts include the "cap-and-trade" program, which requires some companies and government agencies to buy permits from the state to release GHGs. The program causes some water agencies to have higher electricity costs to operate parts of their water delivery systems, such as pumps and water treatment plants. This proposition requires that a portion of the funding the state receives from the sale of permits be provided to four water agencies—the state Department of Water Resources, the Metropolitan Water District of Southern California, the Contra Costa Water District, and the San Luis and Delta Mendota Water Authority. The amount of funding would be equal to each agency's additional electricity costs associated with state programs to reduce GHGs. We estimate these costs could total tens of millions of dollars annually. (In the most recent year, the state has received $3 billion from the sale of permits.) The agencies would be required to spend the funds they receive on such activities as water conservation programs. As such, these funds would no longer be available for the state to spend on other activities.

FISCAL EFFECTS

State Bond Costs. This proposition would allow the state to borrow $8.9 billion by selling additional GO bonds to investors. These investors would be repaid with interest using the state's General Fund tax revenues. The cost of 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 estimate that 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.** This amount is about one-third of 1 percent of the state's current General Fund budget.

Local Costs and Savings to Complete Projects. Much of the bond funding would be used for local government projects. Providing state funds for local projects would affect how much of their own funds these local governments spend on these projects. In many cases, state bonds would 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.

In some cases, however, state funds could increase total spending on projects by local governments. For example, some local governments might choose to build additional or substantially larger projects than they would if state funds were not available. For some of these projects—such as when the bond requires a local cost share—local governments would bear some of the additional costs.

On balance, we estimate that this proposition would result in savings to local governments to complete the projects funded by this bond. These savings could average a couple hundred million dollars annually over the next few decades. The exact amount would depend on which specific projects local governments choose and their share of the total project costs.