



Proposition 3 \$8.877 Billion Water Bond

CALTAX POSITION

The California Taxpayers Association opposes Proposition 3 because California already has \$12 billion in authorized but unissued bonds relating to water projects, making this measure unnecessary.

DIGEST

Authorizes an \$8.877 billion general obligation bond to fund a variety of infrastructure projects relating to water quality, storage, conservation and watershed management.

MAJOR PROVISIONS

\$8.877 Billion General Obligation Bond. Authorizes a general obligation bond to pay for a litany of projects related to water:

Topic	Amount
Safe Drinking Water and Water Quality	\$3.03 billion
Watershed and Fisheries Improvements	\$2.895 billion
Habitat Protection	\$940 million
Improved Water Conveyance	\$855 million
Groundwater Sustainability and Storage	\$685 million
Surface Water Storage/Dam Repairs	\$472 million
Total	\$8.877 billion

FISCAL IMPACT

\$17.3 billion to pay off principal (\$8.877 billion) and interest (\$8.4 billion) over a 40-year period, with annual payments averaging \$433 million.

BACKGROUND

Since 1976, Californians have approved more than \$148 billion in general obligation bonds to fund a variety of programs and projects.

According to a March 2017 report by the Legislative Analyst's Office, the bonds approved by voters include \$27 billion for natural resources, water infrastructure, flood protection, conservation and similar programs. Since 2000 alone, California voters have approved seven general obligation bonds relating to environmental policies.

Of the bonds approved prior to 2014, a total of 93 percent of the funding has been appropriated.

In November 2014, voters approved Proposition 1, the Water Quality, Supply, and Infrastructure Improvement Act, which reallocated unsold bonds from previous voter-approved bonds and authorized the issuance of general obligation bonds. According to the 2017 state treasurer's report, the state has issued only \$300 million of the bonds authorized by that measure, and still has \$7.2 billion in unissued bonds.

In June 2018, Proposition 68 was passed by voters to authorize \$4 billion in general obligation bonds relating to water and parks projects.

CALTAX CRITERIA FOR EVALUATING BONDS

Bonds are an appropriate mechanism that can be used to finance projects at the state and local level of government. Bonds should be consistent with the following criteria:

- The project to be financed is a capital facility or infrastructure project, and the bond funding will pay for land acquisition and capital costs, not for operations, non-construction salaries or wages, or ongoing costs.
- Non-bond financing is not a reasonable option.
- The project costs are appropriately shared by future taxpayers because the project will have a useful life at least as long as the term of the bonds, and future taxpayers will benefit from the facility that is built with the bond proceeds.
- For state bonds, projects funded are of state-level concern and importance. State bonds should not pay for local projects that do not have significant extra-territorial impact.
- Interest rates for indebtedness are not abnormally high, and the overall debt level will not be excessive. Local governments should avoid using capital appreciation bonds.

POLICY CONSIDERATIONS

- **Adds to Bond Debt.** According to the state treasurer's 2017 Fiscal Report, California has \$83.24 billion in outstanding general obligation bond debt, with another \$38.61 billion in authorized but unissued debt. If all bonds are sold, California would have \$121.85 billion in general obligation bond debt – equivalent to nearly as much as the 2017-18 general fund budget.

Additionally, the treasurer's report states that among the country's 10 most populous states, California ranks third in debt as a percentage of GDP (3.51 percent), debt per capita (\$2,217) and debt to personal income (4.2 percent).

In 2018, California will pay \$3.7 billion in interest and \$2.95 billion in principal debt on current general obligation bond debt. Issuing additional debt may not be fiscally prudent.

- **Reallocation of Unsold Bonds.** Californians passed Proposition 1 in 2014 to reallocate several unsold water-related bonds, and authorized the issuance of \$7.12 billion in bonds related to water quality, supply and infrastructure improvements. Since then, very little of the approved bonds have been sold by the state. Before asking voters to approve additional debt, the state should sell approved bonds and fund the necessary projects.
- **Funds Maintenance and Conservation Programs.** Portions of the bond would be used to fund maintenance and repair of existing infrastructure. Additionally, the bonds would finance conservatory and other environmental protection programs.
- **Voters Approved Water and Park Bond in June.** California voters approved Proposition 68 on June 5, 2018. That measure authorizes \$4 billion in general obligation bonds for several water quality and conservation projects. If Proposition 3 passes, California will have \$20 billion in authorized but unissued bonds relating to water projects.