# Proposition 68: $7.8 Billion in Bond Debt For Funding Projects in Targeted Areas

*June 5, 2018 ballot*

**The California Taxpayers Association OPPOSES Proposition 68** because the measure fails to meet requirements for good bond policy. First, the bond earmarks a sizeable percentage of funds to targeted areas, and funds projects that do not have a benefit beyond a local jurisdiction. Also, Proposition 68 could have reallocated $4 billion of $7.12 billion in previously approved bonds (from Proposition 1 of 2014), rather than issuing an additional $4 billion in debt, plus $3.8 billion in interest, that will have to be repaid by taxpayers.

## Digest

Proposition 68, sponsored by state Senator Kevin de León, provides for the issuance of $4 billion in general obligation bonds and the reallocation of $100 million in unsold bonds to fund a variety of programs related to parks, drought, water, climate and coastal protection and preservation of outdoor spaces. Proposition 68 does not fund any projects that increase the availability of water storage and supply.

## Major Provisions

- **Issues General Obligation Bonds.** Issues $4 billion in general obligation bonds according to the table below.

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| **$2,830,000,000 – Funding for Targeted Areas** |
| ▪ Includes $40,000,000 for local agencies that obtained voter approval between November 2012 and November 2018 for "revenue enhancement" measures aimed at improving park infrastructure. |
| **$250,000,000 – Clean Drinking Water** |
| **$80,000,000 – Cleaning and Preventing Groundwater Contamination** |
| **$550,000,000 – Flood Protection, Repair and Wildlife Enhancement** |
| **$390,000,000 – Regional Water and Drought Sustainability** |

- **Reallocates Unissued Bonds.** Reallocates $100,000,000 of the unissued bonds voters authorized in Proposition 1 of 2014, Proposition 84 of 2006 and Proposition 40 of 2002.

- **Earmarks Funds to Targeted Areas.** The measure earmarks appropriations based upon the aggregate income of individuals in targeted areas. A targeted area includes a “disadvantaged community” with a median household income less than 80 percent of the statewide average, and a “severely disadvantaged community” with median household income less than 60 percent of the statewide average.

    - At least 20 percent of the funds available must be allocated for projects serving severely disadvantaged communities.
    - 15 percent of the funds made pursuant to ocean, bay and coastal protection and climate preparedness must be made to severely disadvantaged communities.
    - 10 percent of the funds made pursuant to each chapter in the measure may be spent on technical assistance to disadvantaged communities.
    - 5 percent of funds available pursuant to each chapter shall be spent on transportation, physical activity programming and multilingual translation.

## Fiscal Impact

According to the Legislative Analyst’s Office, California would spend $7.8 billion in state tax dollars to pay off the principal ($4 billion) and interest ($3.8 billion). Over 40 years, the state would pay an average of $200 million annually for this debt.

## Background

Since 1976, Californians have approved more than $144 billion in general obligation bonds funding 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 approved seven general obligation bonds relating to environmental causes.

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.

Proposition 68 was placed on the ballot by the state Legislature via legislation that was passed with a two-thirds vote in the Senate and more than a two-thirds vote in the Assembly.

## CalTax Criteria for Evaluating Bonds

Bonds can be an appropriate mechanism for financing some projects at the state and local levels 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

Proposition 68 is a sizeable bond that would finance a large variety of programs or projects, some of which already are eligible for voter-approved bond funding. Additionally, CalTax has the following policy concerns:

- **Can California Afford More 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 97 percent of the approved 2017-18 general fund budget.

  Additionally, the treasurer’s report states that among the country’s 10 most populous states, California ranks third highest in debt as a percentage of GDP (3.51 percent), debt per capital ($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 the fiscally prudent choice.

- **Use Existing Money in the General Fund.** Prior to issuing additional debt, legislators should consider using existing general fund revenue. Building programs and projects with multiple benefits would be an efficient, fiscally responsible and wise investment of current revenue, all while avoiding additional state debt.

- **Reallocate Unsold Bonds.** Californians passed Proposition 1 in 2014 to reallocate several unsold relevant bonds, and authorized the issuance of $7.12 billion in bonds related to water quality, supply and infrastructure improvements. The 2014 measure overlaps with Proposition 68 in several significant ways. Although Proposition 1 was approved in 2014, none of the approved bonds have been sold by the state. Before asking voters to approve additional bond debt, the state should sell approved bonds and fund the necessary projects.

- **Funds Benefit Some Californians More Than Others.** Since general obligation bonds are repaid from the state general fund, into which every California taxpayer contributes, projects funded by bonds should benefit all Californians, not a select few.