Proposition 18

Safe, Clean, and Reliable Drinking Water Supply Act of 2010. SBX7 2 (Chapter 3, Statutes of 2009), Cogdill. Bond Measure.

Background

State Water Programs. The state administers a number of programs to conserve and protect water resources, store and deliver water, improve the reliability of water supplies, provide flood control, and protect wildlife habitat. The state also provides grants and loans to local agencies, nonprofit organizations, and privately owned water utilities for similar purposes. Funding for various water-related programs has traditionally come from state General Fund revenues, state general obligation bonds, and federal funds. Since 1996, voters have approved about $21 billion in bonds for various resources-related purposes. It is estimated that about $4 billion of these bonds remain available for new projects, a majority for water-related projects.

There are various state agencies that administer water programs, including:

- *The Department of Water Resources (DWR)* administers the State Water Project (SWP), which functions as a water storage and delivery system, and includes facilities to convey water through the Sacramento-San Joaquin Delta system. Funding for construction, operation, and maintenance of the SWP has been paid mostly by entities such as local water agencies that pay for the delivery of water. A very limited amount (less than 4 percent) has been paid by other funds, including the General Fund. The DWR also (1) administers

the state system of flood control (mainly in the Central Valley); (2) operates various local assistance programs, including for water conservation, flood management, and water supply reliability purposes; and (3) provides periodic updates to the California Water Plan.

- *The California Water Commission* currently is responsible for certain activities related to DWR, including approval of regulations, use of the state's authority to acquire private property for water projects from unwilling sellers, and department planning activities. The commission has been largely inactive over the past several years.

- *The State Water Resources Control Board,* in conjunction with nine regional boards, regulates water quality in the state, including the sources of drinking water (both groundwater and surface water). Through these agencies, the state has made funding available for various projects throughout the state that improve water quality and the reliability of water supplies. For example, the state has provided loans and grants to local agencies for the construction and implementation of wastewater treatment, water conservation, and water pollution reduction projects.

- *The Department of Public Health* regulates the quality of drinking water supplied to consumers by public water systems and provides loans and grants to these systems for facility improvements to meet state and federal safe drinking water standards.

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Water Challenges Facing the State. There is wide consensus that a number of water-related challenges are facing the state. These challenges include the identified need to improve the availability and reliability of the state's water supplies to meet projected demands, improve the quality of water for all uses, reduce the risks from an aging flood control system, and improve fish and wildlife habitat. These challenges could be addressed in a number of ways, and there is not common agreement on the most appropriate means to do so. For example, some challenges might be addressed by the construction of new infrastructure, improvements to existing infrastructure, changes in the way existing water systems are managed, or changes in the way water is used.

November 2009 Water Legislation. In November 2009, the Legislature approved various major changes to the state's water-related programs and governance, including this bond measure. The legislation includes changes to the state's governance structure for the Delta region, increased duties for various Delta- and water-related state agencies, and the creation of a conservancy in the Delta. The legislation also increases water rights enforcement, requires groundwater monitoring statewide, and mandates local water conservation measures. The other measures have taken effect and are not affected by the vote on this bond measure.

Proposal

Authority to Sell General Obligation Bonds. This measure allows the state to sell $11.1 billion in general obligation bonds for various water and conservation-related programs. By selling general obligation bonds to investors, California borrows funds for

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infrastructure and related purposes. The state then must pay off the bonds with interest in future years. Figure 1 summarizes the purposes for which the bond money would be available for expenditure by various state agencies as well as for loans and grants to local agencies, public utilities, mutual water companies, and nonprofit organizations. The measure funds a number of water supply and water quality-related programs in seven categories, many of which are similar to or extend existing bond-funded programs.

As shown in Figure 1, the bond measure provides funding for a wide variety of water-related projects, with the major purposes of:

- *Improving the Availability and Reliability of Water Deliveries.* These types of projects could include surface storage (dams), groundwater storage, water recycling, water conservation, flood control improvements, and local or regional projects to transport water.
- *Improving the Quality of Water Deliveries.* These projects would protect water sources—including lakes, rivers, streams, and groundwater—from pollution, through the cleanup of contaminated groundwater, wastewater treatment plant improvements, and upgrades to public water systems to meet safe drinking water standards.
- *Protecting and Restoring State Ecosystems Including the Delta.* Projects could include those that protect native fish and wildlife dependent on the Delta ecosystem, restore coastal salmon habitat, and restore watershed lands

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or rivers and streams throughout the state that support threatened or endangered species.

This measure would allow the California Water Commission to allocate funding for state water system operation improvements (as shown in Figure 1). However, the Legislature would decide how to allocate the remaining bond funds. The measure also allows no more than 50 percent of the $11.1 billion of bonds to be sold prior to July 1, 2015. The measure prohibits any use of the bond funds to design, construct, operate, or maintain Delta-related facilities to move water directly from the Sacramento River to facilities operated by the SWP or the federal Central Valley Project. (For example, these bond funds could not be used to build a peripheral canal or similar facility.)

New Responsibilities of California Water Commission. This measure adds to the current responsibilities of the California Water Commission. Specifically, it charges the commission with developing regulations to determine the public benefits of water storage projects that would receive funding under this measure. The commission would also select water storage projects funded by this measure through a competitive public process.

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Figure 1
Proposition 18: Uses of the Bond Funds

(In Millions)

State Water System Operation Improvement	
• State, regional, and local surface storage projects, groundwater storage, modernizing reservoir operations, and conveyance to improve interregional system operations.	$3,000
Sustainability of the Sacramento-San Joaquin Delta	
• Projects to protect and enhance the sustainability of Delta ecosystem.	$1,500
• Protection and improvement to Delta-related levees, drinking water quality, infrastructure, and fish and wildlife habitat; and other projects that support legislatively approved Delta sustainability options.	750
Subtotal	($2,250)
Conservation and Watershed Protection	
• Specified projects and programs for resources stewardship, ecosystem restoration, urban watershed, invasive species, and water rights acquisition.	$1,205
• Projects for dam removal, economic development, education, salmon passage, and ocean protection.	430
• Projects to protect watersheds, forest health, and water quality.	100
• Funding for infrastructure mitigation program.	50
Subtotal	($1,785)
Water Supply Reliability	
• Competitive grants for a wide variety of water supply reliability projects, with funding allocated regionally.	$1,400
Water Recycling	
• Grants and loans for water recycling projects, groundwater storage, desalination, and technical assistance.	$1,000
• Grants, loans, and direct expenditures for water conservation and water use efficiency projects.	250
Subtotal	($1,250)
Groundwater Protection and Quality	
• Grants, loans, and direct expenditures for water treatment, drinking water cleanup, and projects to prevent contamination of groundwater that serves as a source of drinking water.	$1,000
Drought Relief	
• Grants, loans, and direct expenditures for local and regional drought relief projects.	$455
Total	$11,140

Fiscal Effects

General Obligation Bond Costs. As described in the "Overview of State Bond Debt" (another section of this *Voter Information Guide*), the state's costs for any bond include principal and interest payments. This measure would allow the state to issue up to $11.1 billion of general obligation bonds, which would likely be issued in multiple installments over the next ten years or so. If all the bonds were sold, the state would have to pay back over the next few decades $11.1 billion in water bond principal and, in

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addition, a similar amount of bond interest. Based on the state's past practices, each installment of water bonds is likely to be paid off with level payments over a 30-year period. The bond payments thus would end about 30 years after the final installment is issued. For example, if the last water bonds resulting from this measure are issued in 2020, these bonds would be fully paid off around the year 2050.

Assuming that interest rates for these water bonds average 5.5 percent, the state's total bond costs under this measure—both bond principal and interest—would eventually peak at about $765 million annually. This cost would be about one-half of 1 percent of General Fund spending. As noted earlier, this measure allows no more than 50 percent of the $11.1 billion of bonds to be sold prior to July 1, 2015. Accordingly, between now and 2015, the estimated annual costs of these bonds would remain under $385 million per year. The peak annual expenditures of $765 million would not occur until sometime after 2015.

Cost-Sharing by Local Governments. Of the $11.1 billion of general obligation bonds authorized by the measure, about one-half is available contingent upon matching funds being provided from nonstate sources. The matching requirement can be waived or reduced under specified circumstances. Much of the matching funds would likely come from local governments, including local public water agencies. The share of matching funds from nonstate entities, when required, is generally at least 50 percent of the total costs of the project. Also, some local agencies would have spent their own monies for some water projects and programs in the absence of these state bond funds. Thus, the

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net cost to local governments on a statewide basis for these matching requirements is unknown, but could amount to a few billions of dollars on a one-time basis.

Operational Costs for General Obligation Bond-Funded Projects. The state and local governments that develop projects with these bond funds may incur additional costs to operate or maintain the projects. For example, there would be ongoing costs to operate a new water-recycling project constructed with the bond funds. The amount of these potential additional costs is unknown, but could be in the hundreds of millions of dollars annually once the projects are completed and fully operational. Most of these costs would likely be offset by fees levied on users of the projects.