



July 2018

Frequently Asked Questions

Proposition 3 Water Bond and Sierra Club Opposition

What is Proposition 3?

Proposition 3, previously known as the Water Supply and Water Quality Act of 2018, is a \$8.877 billion general obligation bond on the ballot in California for the November 6th 2018 election.

What is a “general obligation bond”?

A general obligation bond is a bond that is repaid over a period of time through tax dollars. This means that taxpayers are responsible for the entire \$17.3 billion dollar repayment (the cost of the bond plus fees and interest). A general obligation bond is different from a revenue bond in which those who benefit from the bond pay the costs of the bond, such as debt issued for a new bridge where tolls are collected for repayment.

General obligation bonds are best used to serve purposes that benefit the taxpayers as a whole. This includes paying for state obligations, paying for projects where there is no other source of funding or the community cannot bear the costs, or incentivizing a shift in policy that benefits the state. For the purposes of water bonds, these frequently include obligations like Salton Sea restoration, funding public trust resources such as wildlife, assisting disadvantaged communities with drinking water needs, or shifting water agencies to increase conservation or recycling that reduce reliance on taking water from ecosystems. While some of these public trust resources will benefit from Proposition 3, many projects funded by the bond will benefit only particular interests and not the public as a whole.

How was this bond placed on the ballot?

There are two paths to place a bond on the ballot: through the legislative process, or through signature gathering. This bond went through the signature-gathering process.

The legislative process requires a bill to be publically developed and heard at public hearings by numerous legislative committees, with options for public comment, and must be approved by a two-thirds vote of the legislators in both the Senate and the Assembly. These legislators are directly accountable to voters. Additionally, the executive branch usually engages during this process, to make sure the governor is willing and able to support the expenditures.

The signature-gathering process is very different. This process involves developing a bond by private parties, with no requirements for public engagement or involvement. Additionally, campaigning and signature-gathering costs a lot of money. For this bond, 365,880 signatures were needed. Signature-gathering services range between \$2.72 and \$8.38 per signature, and sometimes more. In the context of this water bond, the high costs of simply putting the bond measure on the ballot and then run a successful election has resulted in a pay-to-play structure, whereby private groups with money provide funds for the campaign. In exchange, they receive guarantees of funding for specific purposes within the bond. They effectively get more than they invested in the campaign out of the bond. If the bond passes, taxpayers end up paying for these investments that the private sector would otherwise have made on its own for certain water projects or would have been required to make through enforcement of existing law. Exactly what projects and funded are included in the bond was negotiated in private.

How much will Proposition 3 cost Californians?

The bond itself is for nearly \$8.9 billion. The Legislative Analyst's Office has estimated that interest costs will add \$8.4 billion. This means the total cost to taxpayers will be \$17.3 billion dollars, representing a direct cost pressure to the state's general fund of about \$430 million annually.

There could be other costs to Californians. For instance, during an economic downturn (which economists say California is overdue to experience) the general fund is the hardest hit, particularly after other constitutionally required expenses are paid. During the Great Recession 2007 to 2009, California faced a \$41 billion budget deficit. When another economic crisis occurs, \$430 million annually will still have to go to pay the water bond. Other programs that depend on the general fund will likely suffer, including environmental protection programs, higher education, or other needed social programs.

What will it fund?

The bond will fund investments in water and habitat projects throughout California. Many of these projects are worthwhile. For instance, \$500 million will be directed toward projects that improve drinking water in disadvantaged communities. However, other projects are generous giveaways to private entities. Approximately \$750 million will be given away to an entity to use to support large projects designed to give one of the largest agricultural companies in the world new canals. Other money could go to building new dams even though existing dams are not being maintained at safe levels.

How will Proposition 3 harm California's environment?

There are at least five specific ways that we believe this bond will directly harm the environment.

- **It could open new funding pathways for ill-conceived dams.** Only chapters 8 and 9 and the new Section 6 (page 49-50) prohibits the expenditure of funds on new surface storage or raising existing reservoirs. We are concerned that the only clear prohibition is found in 3 specific places in the bond and nowhere else. This raises the issue that the other chapters are not subject to that prohibition. Also, the bond measure's proponents rejected requests by environmental groups to overtly prohibit funds from being used to construct, expand or improve conveyance facilities associated with any surface storage project listed in the CalFed decision of 2000. We take this as a sign that it is possible—and maybe probable—that funds in this bond will be used to advance several dam projects we have opposed.
- **It could create incentives that harm threatened and endangered species.** Section 86032 of the bond provides funding for agricultural water conservation in the tributaries of the Delta for the benefit of flow and to expedite water transfers. This section does not explicitly prohibit the expenditure of funds on activities that create adverse impacts to wildlife, such as eliminating flooding of rice fields for decomposition or the disking of fallowed agricultural lands to prevent the growth of plants that provide for upland habitat for birds and other species. This section could provide perverse incentives that decrease migratory bird habitat and habitat for other wildlife such as the threatened giant garter snake.
- **It shifts money away from important upland habitat conservation.** The bond's proposed addition of Section 2799.7 to the Fish and Game Code would send the Habitat Conservation Fund money to water acquisition after 2020. We do not believe that 100 percent of that money should go only to acquire water. That fund has been important to non-water related habitat. If there is to be a reallocation of that fund, a substantial percentage should go to wildlife corridor conservation in the face of climate change.
- **It raids the Greenhouse Gas Reduction Fund (GGRF) to build political support.** AB 32 (2006) created California's cap and trade system. Emitters of greenhouse gases must either reduce their levels of emissions or purchase credits to cover their emissions at auction. Proceeds from those auction are supposed to go towards projects that reduce greenhouse gas emissions. This bonds mandates that funds paid into the GGRF by the Department of Water Resources, Metropolitan Water District of Southern California, San Luis and Delta Mendota Water Authority will be given back to those agencies for water conservation measures. This could shift a large amount of money from programs that

efficiently cut greenhouse gas emissions and other co-pollutants that harm public health to water conservation measures that only have a marginal reduction in emissions and could have other sources of funds.

- **Debt servicing for the bond could require future cuts for environmental protection.** This bond will add \$430 million annually to the Natural Resources budget. This pushes debt to over 50% of that part of the budget. If there is an economic downturn, these payments must continue, meaning that cuts to the rest of the Natural Resources budget are likely. This could include vital funding for other environmental protection programs throughout the state.

How do large corporate agricultural corporations or other parties profit off of Proposition 3?

Several items in the bond directly relieve existing financial obligations by parties, including corporate agriculture.

The \$750 million for Friant Water Authority is being advertised as repairing the damaged Friant-Kern Canal. This canal was damaged from groundwater subsidence caused by overpumping of aquifers. The traditional method of paying for canals that deliver water to agricultural interests is through a beneficiary pays model, where those who profit from the water pay for the costs of building and maintaining the infrastructure. This bond instead provides taxpayer money for these canals that large corporate agricultural interests will profit from. Additionally, since the Friant-Kern Canal was caused by overpumping of groundwater, those who overpumped the water will not be held liable for causing the damage.

Similarly, the Oroville Dam is part of the State Water Project, with contractors who operate under a beneficiary pays model. Funding for repairs for the dam should come from these contractors, including the Metropolitan Water District of Southern California. Further, California needs to shift towards better dam maintenance. Absolving these parties of responsibility sends the wrong message.

The bond mandates that four agencies receive all of the funding that they provide into the GGRF back for water conservation projects. These agencies are able to meet current conservation targets without additional funding from the GGRF, which should go towards the most effective emissions reduction measures.

Funds in the bond are available for purchasing water rights for instream flow, without adequate assurances that these flows will not be used to satisfy existing legal obligations to provide water by parties.

How will Proposition 3 be repaid?

The bond will be repaid by the taxpayers through the state's general fund at an average of \$430 million annually.

How will Proposition 3 affect funds available for other natural resource needs?

This bond creates a \$430 million cost to the state's general fund for 40 years, increasing the percentage of debt in the Natural Resource budget to over 50%. California's general fund is notoriously subject to large swings with changes in the economy. Should the economy weaken, there will be needed cuts to spending across the board, including the Natural Resource budget. This \$430 million pressure increases the likelihood that other programs in the budget will be cut.

Didn't Californians just pass a water bond in June?

Californians passed Proposition 68, which was a \$4.1 billion legislative bond for parks and water projects. This includes the following funding for water:

- \$162 million for urban streams
- \$30 million for Salton Sea and New River restoration
- \$175 million for coastal and ocean resources
- \$250 million for clean drinking water and drought preparation
- \$80 million for groundwater sustainability
- \$550 million for flood protection
- \$290 million for other drought measures, including water recycling

How did that June bond measure differ from this one slated for November?

The June bond was much smaller and more targeted than the November bond. This is partially because of the differences in process. Proposition 68 went through five legislative committees, with each providing an opportunity for the public to engage in the process and offer suggestions. It also went through votes by both houses of the legislature, receiving a two-thirds vote in each house. The June bond also underwent negotiations with the governor's office, which helps ensure that the funds can be spent quickly and adequately. Because of this, funding was ready to be allocated as soon as the bond was approved by the voters.

This in contrast to the process for the November bond, which was negotiated behind closed doors, includes giveaways to large corporations and polluters, and may not be ready to implemented by the executive branch.

Does the good in Proposition 3 outweigh the bad?

No. This bond underwent a process that gives too much away to rich corporate interests and opens the way for large sums to be spent on ambiguous or environmentally harmful projects. A better approach would be to consider a more tailored bond that addresses real public needs and benefits in an open negotiation through the legislative process and with the governor.

What oversight will there be that the bond money allotted is spent as promised?

This bond is unusual in that it continuously appropriates all the funds. That means that, unlike with most other natural resource bonds, there will be no annual budgeting from the legislature. This eliminates clear and constant oversight by elected officials to ensure that agencies responsible for distributing the bond money, and the entities receiving the bond money, are spending money as voters intended.