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Fitch: Revenue Bond Loss Would Slow California's Infrastructure.

Fitch Ratings-New York-19 November 2015: A proposed California ballot initiative could limit financing for the state's major infrastructure projects, Fitch Ratings says. The measure to amend California's constitution to require voter approval of revenue bonds for projects with total costs exceeding \$2 billion will likely appear on the November 2016 ballot.

Fitch has often cited voter initiatives as a key factor limiting California's budgetary flexibility. This legislation would also delay infrastructure policy and expose it to the political process.

If the measure becomes state law, it would constrain infrastructure financing and likely result in reduced investment over time, particularly for major water projects. Revenue bonds have played a limited role in the state's infrastructure financing overall but have been essential for financing water projects. In the absence of revenue bonds, water projects have few other funding options.

Water projects have gained importance during California's historic drought. In addition, the ongoing rise in the state's population (approaching 40 million) and deferred maintenance has left an estimated \$750 billion in funding needs over the next ten years. California's 2015 Five-Year Infrastructure Plan (a portion of the state budget) proposed investing just \$57 billion over that term.

The proposed ballot measure is an effort to halt the California Water Fix (formerly known as the Bay Delta Conservation Plan). The project is a controversial effort to construct twin tunnels through California's Sacramento-San Joaquin Delta. Agricultural and residential ratepayers would finance a large share of the project's estimated \$25 billion cost if necessary regulatory approvals and political support can be obtained. The proposed initiative would present an additional hurdle of statewide voter approval and would extend this requirement to other large infrastructure projects supported by revenue bonds as well.

Contact:

Stephen Walsh
Director
US Public Finance
+1 415 732-7573
650 California Street
San Francisco, CA

Rob Rowan
Senior Director
Fitch Wire
+1 212 908-9159
33 Whitehall Street
New York, NY

