Putting California's Assets to Work

Funding Adaptation and Resilience to to Provide A Better Future for all Californians

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Introduction and Purpose

Repeated analyses have shown that in the long run, investments in resilience and adaptation more than pay for themselves. The World Resource Institute estimates a $10 in benefits for every $1 spent on climate adaptation and resilience. Meanwhile, the Congressional Budget Office estimates that on average $1 spent on flood adaptation spending is $3.

However, whatever the ROI, it requires the upfront dollars to make those investments. And these costs will be significant. Undergrounding power lines will cost tens of billions of dollars. Resources for the Future estimates that fuel reduction in the 17 million acres of California's forests with high wildfire potential will cost $9.7B and up to $5B if only forests near communities are treated. In addition to statewide costs, there are the costs to individual homeowners which can run as high as $50k.

Furthermore, while wildfires are top of mind with the tragedy of the LA, it is worth remembering that it is just one risk requiring adaptation and resilience. For example, Plan Bay Area 2050+ estimates that adapting hundreds of miles of Bay Area shoreline will cost $96B with only $6B allocated. The result is a $90B financing gap. Needless to say, the upfront costs of adaptation and resilience across all risks are likely to be significant.

Where will this funding come from? Given the country and particularly California's affordability issues, raising taxes, charging more to utility rate payers or putting a levee on every insurance policy (as the UK did with Flood RE) will likely generate significant backlash from the public.

Fortunately, there is another option: city, county, state and other governments can put their assets to work. The opportunity here is significant. For example, Battery Park in New York consists of between 92 and 93 acres of landfill. The city could have sold off this land. Instead, it put it into Public Benefit Corporation called the Hugh L. Carey Battery Park City Authority. By maintaining ownership, the city can drive public objectives like transforming 36 acres to parks while also leasing much of the land and generating more than $200M in revenue a year for affordable housing. While New York chose to maintain ownership of Battery Park and put it to work, many governmental institutions have no idea of the tremendous assets at their disposal allowing them to raise revenue without raising taxes, rates or placing a levee on insurance premiums.

Putting Assets to Work

When Ben McAdams came into office as Mayor of Salt Lake County, he looked at the county's revenues and expenses and asked, "Where's our wealth?" After an audit, he found that the county had $15B of assets they had never accounted for. Properly managed, these assets could be worth $45B. Since then, he has done a program called Putting Assets to Work (backed by Sorenson) and looked at 6 cities around the country. The pattern of municipal assets that are underutilized is the same. Drawing inspiration from the work of Dag Detter, Ben McAdams has outlined a model for the US version of an Urban Wealth Fund, a Community Asset Trust.

In practice, funding mitigation, resilience and adaptation raises a specter that strikes fear into the hearts of citizens, politicians and utilities alike: raising revenues. Whether this involves new taxes, a levy on insurance premiums or increased taxes, it's a political non-starter. However, there is the opportunity to generate revenue without extra expense to rate payers, homeowners and citizens.

To stick within the specific purview of the California Wildfire Fund, Municipal assets–including firehouses, schools, police stations and public parking lots–provide an ideal opportunity for distributed energy resources, namely solar and battery storage. This would provide a number of benefits:

- **Increased Power Production:** Additional power can be brought online reducing costs for rate payers.
- **Additional Revenue to Critical Services:** Firefighters, schools, police and other critical services can generate revenue that is not tied to property taxes.
- **Resilience Fund:** A portion of this revenue can go towards a Resilience Fund supporting work like undergrounding power lines, fuel reduction and retrofitting buildings.

- **Fund a Reinsurance Pool:** Rather than a levy on policies, the state might put a wide range of assets to work to fund its reinsurance pool. Ideally, this reinsurance pool would cover a wide range of risks.
- **Power Safety Power Shut Off:** Utilities must cut power to reduce the risk of wildfire. However, this often impacts critical services. By ensuring that critical services have distributed energy resources, firefighters, hospitals and more can continue to operate even when power has been cut. In practice, these centers might have the potential to power local microgrids, ensuring continuous power without the need for long-distance transmission lines.

In practice, the state, counties and cities already have the needed assets and the state's institutional investors (who have a significant incentive to protect real estate asset values in the state) could easily provide the needed capital. The missing piece is the regulatory environment for the creation of Urban Wealth Funds or Community Asset Trusts. From there, the opportunity exists to have these assets professionally managed and developed as structured investment opportunities.

However, given the tremendous value of California's real estate, there are opportunities to go beyond utilities and expand into the kind of development strategy employed by the Battery Park City Authority. Beyond state, county and local governments, there are lands and assets owned by school districts, transport authorities and utilities that can be put to work for Californians. Once the state has created this environment, there is also the opportunity to use land and existing buildings for development increasing the supply of resilient affordable housing. In practice, the issue of housing affordability is encompasses many of the state's interlocking crises from insurance to utilities to homelessness. Fortunately, California's various levels of governments have assets they have never used to both increase the supply of housing and fund the work to make the state more resilient.

Innovating a Solution for California

California is at a pivotal moment. For decades, it has become a magnet for in migration that has made the state the world's fourth largest economy. However, increasingly, Californians find themselves challenged when it comes to housing affordability and the wider perception of the resulting interlocking problems threatens to deter both migration and investment. Given the state's reputation for high taxes, raising additional revenues could further turn the tide against California's continued prosperity. That's why it's a perfect moment for California's governments to better utilize the assets they own.

From Putting Assets to Work, the state can see the potential of unlocking underutilized public assets—fire stations, schools, parking lots, municipal buildings, unused and underused buildings and empty land—to generate revenue and resilience through distributed energy resources and even new development. With the right statutory framework, these assets can support a Community Asset Trust, attract institutional investors such as CalPERS and CalSTRS, and create non-tax revenue streams that fund the very resilience measures needed to protect property values and keep communities safe.

Taken together, these approaches suggest clear parameters for a durable and scalable funding solution for resilience and adaptation that requires:

- a regulatory environment that enables Urban Wealth Funds or Community Asset Trusts to professionally manage public assets providing funding.
- structured investment vehicles inviting participation from California's institutional investors.
- a dedicated Resilience and Adaptation Fund to support undergrounding, home hardening, vegetation management, and microgrids.

California has always led by adapting the strongest ideas from around the world and improving upon them. By leveraging public assets and private finance, the state can solve a number of its thorniest interlocking challenges and it is our recommendation that these challenges be solved in an integrated fashion. Earthquake, wildfire, sea level rise and much more all threaten California homes. Ensuring they are safe and affordable is the foundation of a resilient future for Californians and the California economy.

Suggested Next Steps

In practice, the California Wildfire Fund represents a perfect place to start putting California's assets to work. Distributed Energy Resources on municipal buildings not only provide revenues but directly reduces wildfire risk while combatting climate change. By beginning here, California can work towards a larger audit of its assets, study various models for how to put public assets to work and develop a governance and policy environment to attract private capital in a way that serves the public interest.