

Overview of State Infrastructure Bonds

LEGISLATIVE ANALYST'S OFFICE

Presented to:

Senate Committee on Governance and Finance

Hon. Lois Wolk, Chair

Senate Committee on Natural Resources and Water

Hon. Fran Pavley, Chair





Infrastructure Financing in California



The state's infrastructure spending relies on various financing approaches and funding sources.

- **Pay-As-You-Go.** Under the pay-as-you-go approach, the state funds infrastructure up front through direct appropriations of taxes and fees. Pay-as-you-go spending from special funds—primarily transportation revenues—make up a significant share of the state's infrastructure spending.
- **General Fund-Supported Bonds.** The state traditionally has sold two types of bonds that are typically paid off from the General Fund: voter-approved general obligation bonds and lease-revenue bonds approved by the Legislature.

How Does the State Pay for Infrastructure?

2001-02 Through 2010-11 (In Billions)

	Amount	Percent
Pay-As-You-Go		
General Fund	\$1.3	1%
Special fund	33.7	33
Subtotals	(\$35.0)	(34%)
Borrowing		
General obligation bonds	\$60.2	58%
Lease-revenue bonds	6.0	6
Traditional revenue bonds	1.9	2
Subtotals	(\$68.1)	(66%)
Totals	\$103.1	100%

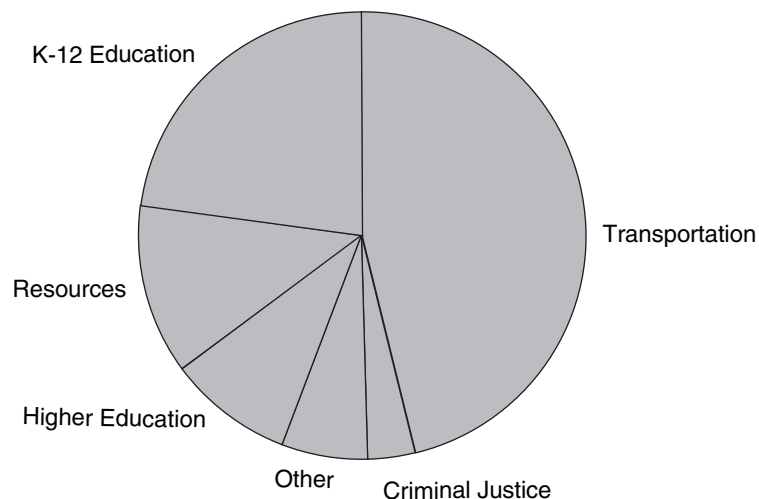


Infrastructure Spending

- Transportation projects make up the largest amount of state infrastructure spending. Education facilities (K-12 and higher education) also receive a significant share.
- Other state facilities or programs receiving infrastructure funds include water resources, state parks, CalFire stations, prisons, courts, state hospitals, developmental centers, California Highway Patrol (CHP) and Department of Motor Vehicles (DMV) offices, veterans homes, and general state office space. The state also provides funding in support of local housing development, children's hospitals, and infrastructure for stem cell research.
- Almost three-fifths of the state's total infrastructure spending is distributed to and administered by local agencies. For example, nearly all of the state government's spending supporting infrastructure for K-12 schools and community colleges is local assistance.

Most State Infrastructure Spending Is for Transportation and Education

Infrastructure Spending, 2006-07 to 2010-11





Recent Bond Authorizations



The voters and the Legislature have authorized more than \$100 billion in bonds since 2000. This includes \$97 billion in general obligation bonds and about \$15 billion in lease-revenue bonds.

State Infrastructure General Obligation Bonds Approved by Voters Since 2000	
<i>(In Billions)</i>	
Proposition Number/Date	Total Amount Authorized by Voters
Education (K-12 and Higher Education)	
47/November 2002	\$13.1
55/March 2004	12.3
1D/November 2006	10.4
Subtotal	(\$35.8)
Transportation	
1B/November 2006— Highways and other transportation	\$19.9
1A/November 2008— High-speed rail	10.0
Subtotal	(\$29.9)
Resources and Environmental Protection	
12/March 2000	\$2.1
13/March 2000	2.0
40/March 2002	2.6
50/November 2002	3.4
84/November 2006	5.4
1E/November 2006	4.1
Subtotal	(\$19.6)
Other	
Various propositions	\$11.7
Total	\$96.9



Overview of State Bond Debt

- The state currently has \$73 billion in outstanding general obligation bonds and \$12 billion in outstanding lease-revenue bonds—that is, bonds on which it is making principal and interest payments.
- In addition, voters or the Legislature have approved about \$37 billion of bonds that have not yet been sold to investors.

Authorized but Unissued General Fund Bonds			
<i>(In Millions)</i>			
	General Obligation Bonds	Lease- Revenue Bonds	Totals
Children's hospitals	\$497	—	\$497
Corrections	3	\$3,561	3,564
General government	75	271	346
Higher education	370	261	631
High-speed rail	9,449	—	9,449
Housing	1,392	—	1,392
K-12 facilities	2,160	—	2,160
Local libraries	5	—	5
Resources and flood control	5,952	799	6,751
Stem cells	1,873	—	1,873
Transportation	10,299	—	10,299
Totals	\$32,075	\$4,892	\$36,967



Budgetary Effects of Bonds

- The Governor's budget estimates that the General Fund cost of the principal and interest payments on the state's infrastructure bonds will be \$5.8 billion in 2013-14. This represents roughly 6 percent of the state's total General Fund revenue. Since 2003-04, the state's General Fund debt service has grown at almost 10 percent annually.

- The state's total debt service on infrastructure bonds is somewhat higher than the \$5.8 billion in General Fund spending. This is because the state uses special funds—mostly transportation weight fees—to pay some of the debt service on its bonds.

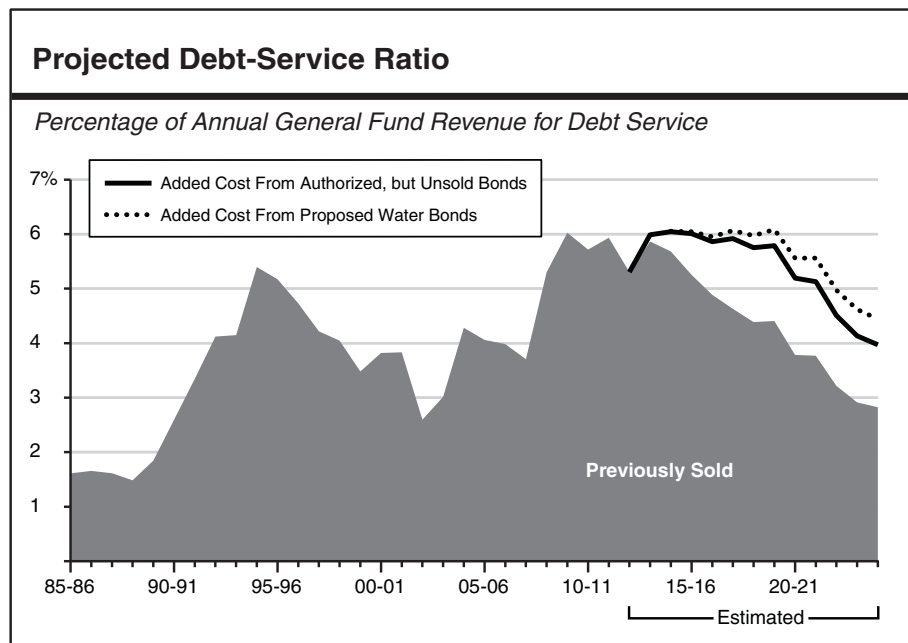
- Assuming no additional bonds are authorized and that only the remaining \$37 billion in authorized bonds are sold, the percentage of General Fund spent on debt service is expected to remain near 6 percent over the next few years. This is because General Fund debt service and revenues are expected to grow at similar rates.



The Proposed Water Bond

- ☑ If approved by voters, the current version of the water bond would authorize borrowing of \$11.1 billion for water-related purposes. Assuming that interest rates for these water bonds would average just over 5 percent and the bonds are sold over a ten-year period, the state’s average annual cost for paying off the water bonds would be \$565 million over a 40-year repayment period. The state’s costs would be less than this average cost at the beginning and end of the repayment period and greater than the average cost in the intervening years.

- ☑ Assuming the water bond is issued in installments over the next decade, its effect on infrastructure bond costs in the next few years would be limited. As a result, the state’s debt-service ratio would increase only slightly, peaking at just over 6 percent near the end of the decade.





State Infrastructure Demands



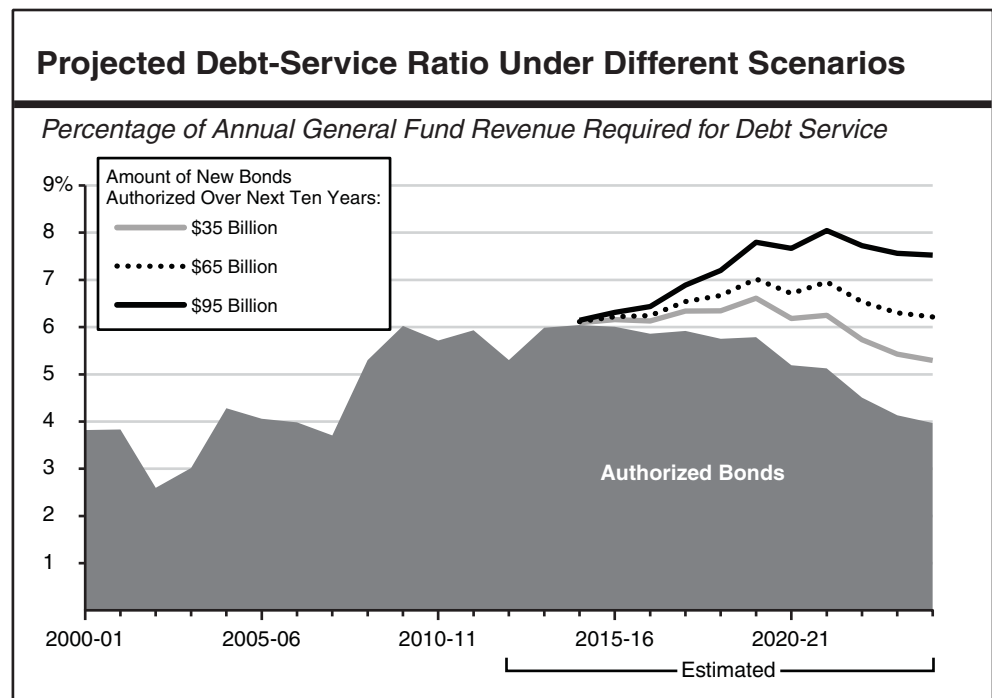
The state does not have a comprehensive inventory of the condition and capacity of its existing infrastructure. Information drawn from current facility conditions and available department plans, however, suggest that demand for state infrastructure funds will continue to be substantial absent changes in current policies.

- The state's K-12 districts, community colleges, and public universities typically rely on state bond funds for infrastructure funding. Currently, there are limited state bond funds available to allocate to new education projects.
- The *2011 Statewide Transportation System Needs Assessment* identified \$170 billion in highway and intercity rail needs over the next decade.
- Numerous state facilities—including state office buildings, trial court facilities, CHP field offices, DMV offices, and state hospitals—are reaching the end of their useful life and will require renovation or replacement in the near future.
- Infrastructure throughout the state that provides drinking water, wastewater treatment, and flood control is in need of rehabilitation, with estimates of needs in the tens of billions of dollars for each area over the next 20 years. In addition, water-related ecosystem restoration in the Delta, the Salton Sea, and elsewhere could cost several billions of dollars more.



Projected Debt-Service Spending Under Different Scenarios

- ☑ Looking forward to the next decade of state infrastructure investment, the largest single issue for the Legislature to determine is the level of state spending to dedicate to this purpose. For any given level of state revenues, each dollar spent on infrastructure (or infrastructure debt service) decreases funds that could be spent on other programs.
- ☑ The largest unknown in forecasting infrastructure spending is the extent to which the Legislature and voters will authorize new bonds for infrastructure. Assuming that the remaining \$37 billion in authorized bonds are sold over the next decade, the figure below shows how different amounts of additional bond authorizations would affect the state’s General Fund budget under current revenue forecasts.





Issues for Legislative Consideration

- ☑ There is no one right level for annual state spending on infrastructure. The amount of infrastructure spending should reflect the state's priorities for infrastructure compared with other state spending. Authorizing new General Fund-supported bonds at a level similar to the last decade, however, would result in a larger share of General Fund spending devoted to infrastructure programs than in the past.

- ☑ The first step in determining where to make investments in the state's infrastructure is to take a comprehensive look at overall state infrastructure needs. The state's five-year infrastructure plan is intended to provide this information.

- ☑ Invariably, the amount of infrastructure spending needs identified by state departments, local governments and school districts, and other stakeholders will exceed existing funding capabilities. As a result, the administration and Legislature will have to set priorities and consider additional alternatives. Options the Legislature could consider include:
 - ***Adopt Strategies to Reduce Infrastructure Demand.***
The Legislature could enact policies that increase utilization, encourage less costly alternatives, or improve efficiency. Higher education policies could place a greater emphasis on distance education and improved use of facilities during the summer. A greater focus on repair and maintenance could prolong the life of existing infrastructure and avoid costly replacements. In transportation, congestion pricing or toll roads could reduce demand for new highway capacity.



Issues for Legislative Consideration

(Continued)

- ***Reduce the Scope of Infrastructure Receiving State Support.*** The Legislature could reevaluate whether certain programs should be a state responsibility or consider shifting a greater share of cost to local governments, the private sector, or other beneficiaries.
- ***Identify Additional Revenue to Support Infrastructure.*** Rather than relying on the state's general revenues to fund most infrastructure, the Legislature could explore alternative revenue sources. Opportunities exist to charge beneficiaries for a greater share of infrastructure costs.



Next Steps

- The administration has indicated that it intends to release the five-year infrastructure plan later this year, which would outline the administration's infrastructure priorities for the next five years. Additionally, the *Governor's Budget Summary* suggests that the administration is considering some changes to the state's infrastructure spending practices. A five-year infrastructure plan and a renewed focus from the administration would be positive steps.

- The five-year plan, as well as discussions regarding potential bond proposals for the 2014 ballot, could provide a useful starting point from which the Legislature could develop a coordinated approach to infrastructure funding. Previously, we have recommended the Legislature establish a legislative committee to focus on statewide infrastructure. This would allow the Legislature to examine how competing proposals fit within the context of overall state infrastructure needs, priorities, and funding capabilities.