

Infrastructure and the Use of Bonds in California



Legislative Analyst's Office

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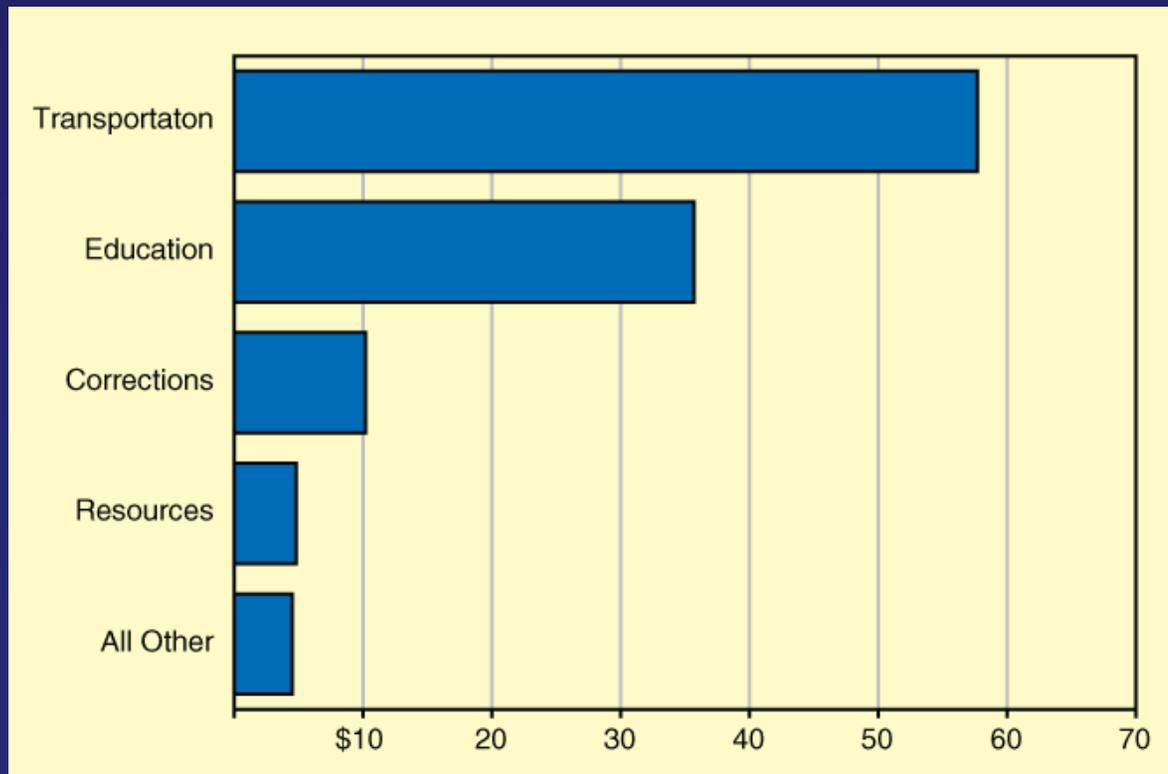


Infrastructure Demands

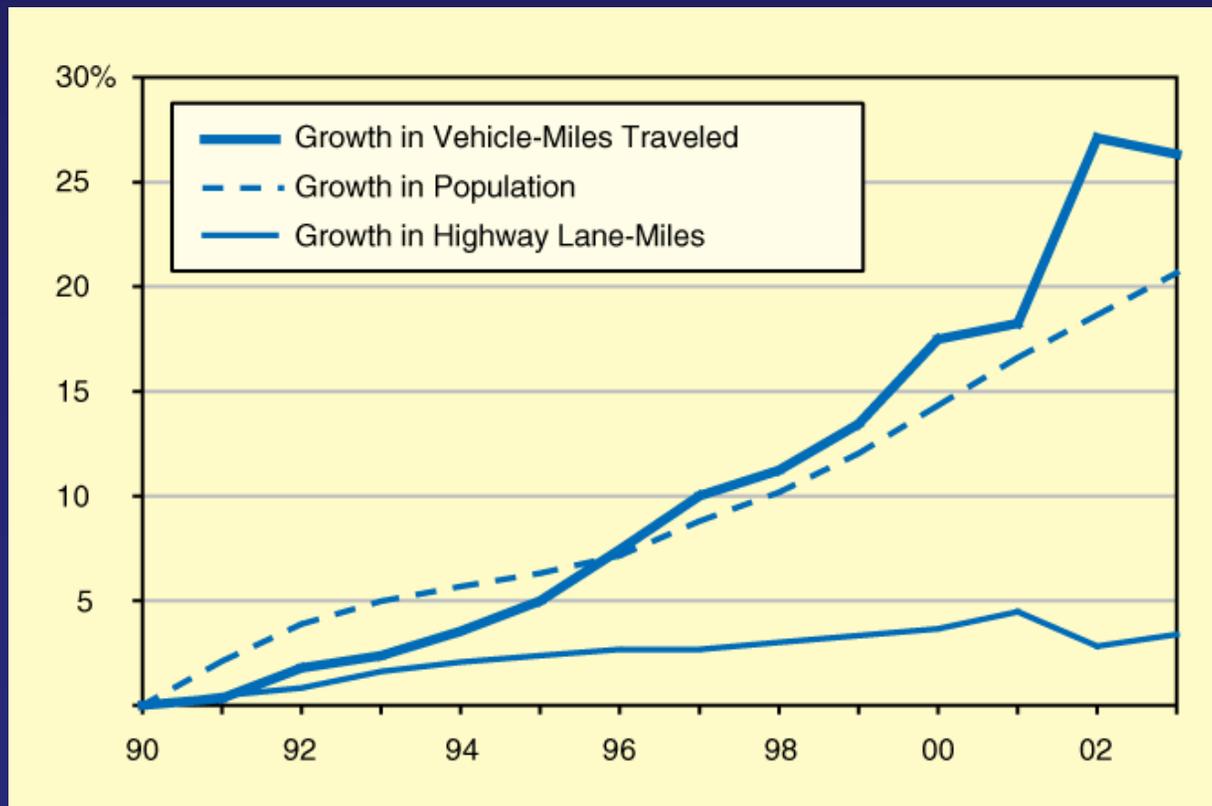
- **The Department of Finance releases annually a five-year assessment of the state's infrastructure needs.**
- **The 2007 plan proposes spending \$113 billion through 2011-12, \$57 billion using bonds.**

What Type of Spending Under the Five-Year Plan Is Proposed?

Cumulative Spending, 2007-08 Through 2011-12
(Dollars in Billions)



Travel in California— Increasing Steadily



Resources Demands Could Be Even Larger

- **Flood control.**
- **Water supply reliability.**
- **Water quality.**
- **Parks deferred maintenance.**

AB 900 Authorizes \$7.4 Billion in Lease-Revenue Bonds

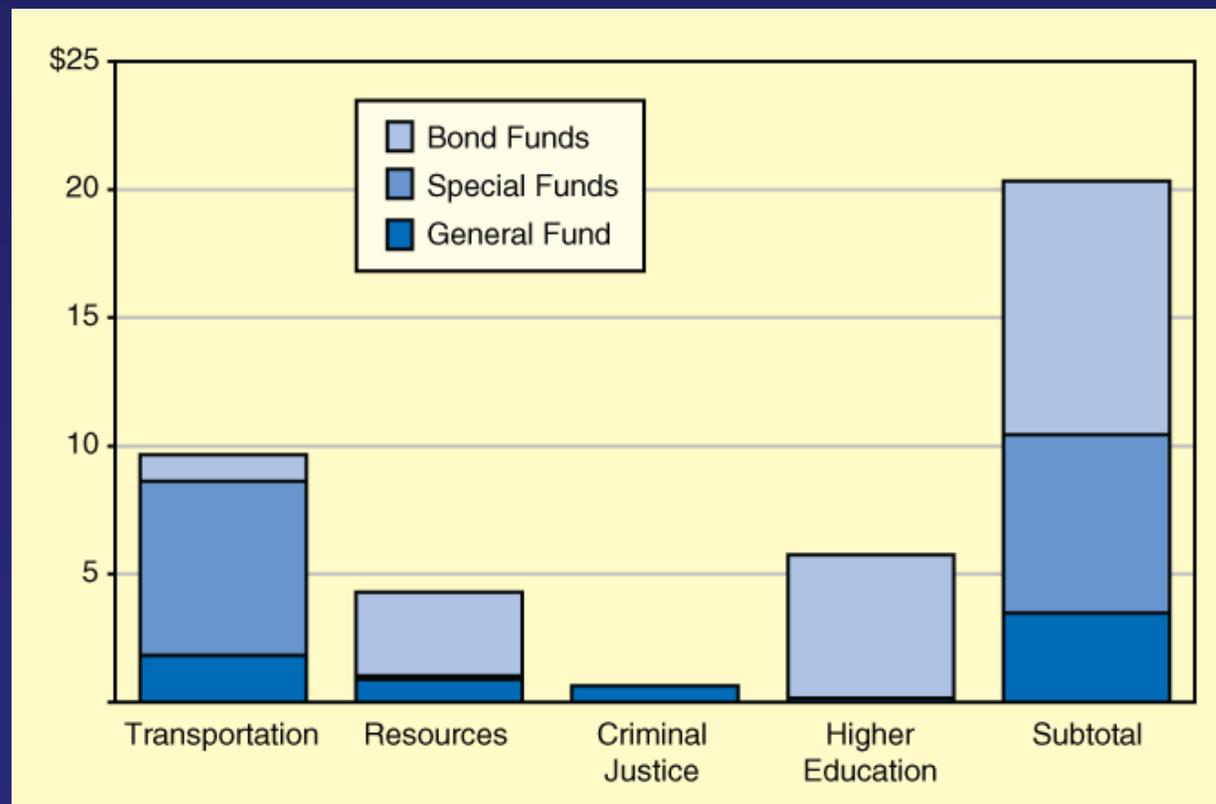
- 12,000 beds and programming space—existing prisons.
- 16,000 re-entry beds.
- 13,000 beds—local jails.
- Medical, dental, and mental health beds and treatment space.

What Options Exist for Financing New Infrastructure?

- **Different financial approaches available.**
- **Different funding sources available.**

Bonds Are the Largest Infrastructure Funding Source

State Capital Outlay Expenditures by Selected Program Areas 2000-01 Through 2006-07 (In Billions)



Types of Bonds the State Uses

- **General obligation (GO) bonds.**
- **Lease-revenue bonds.**
- **Traditional revenue bonds.**

Arguments For and Against Bonds

- **On the downside:**
 - Bonds do cost more because of interest.
- **But, on the positive side, bonds allow for:**
 - Projects put in place sooner.
 - Project costs shared over time.

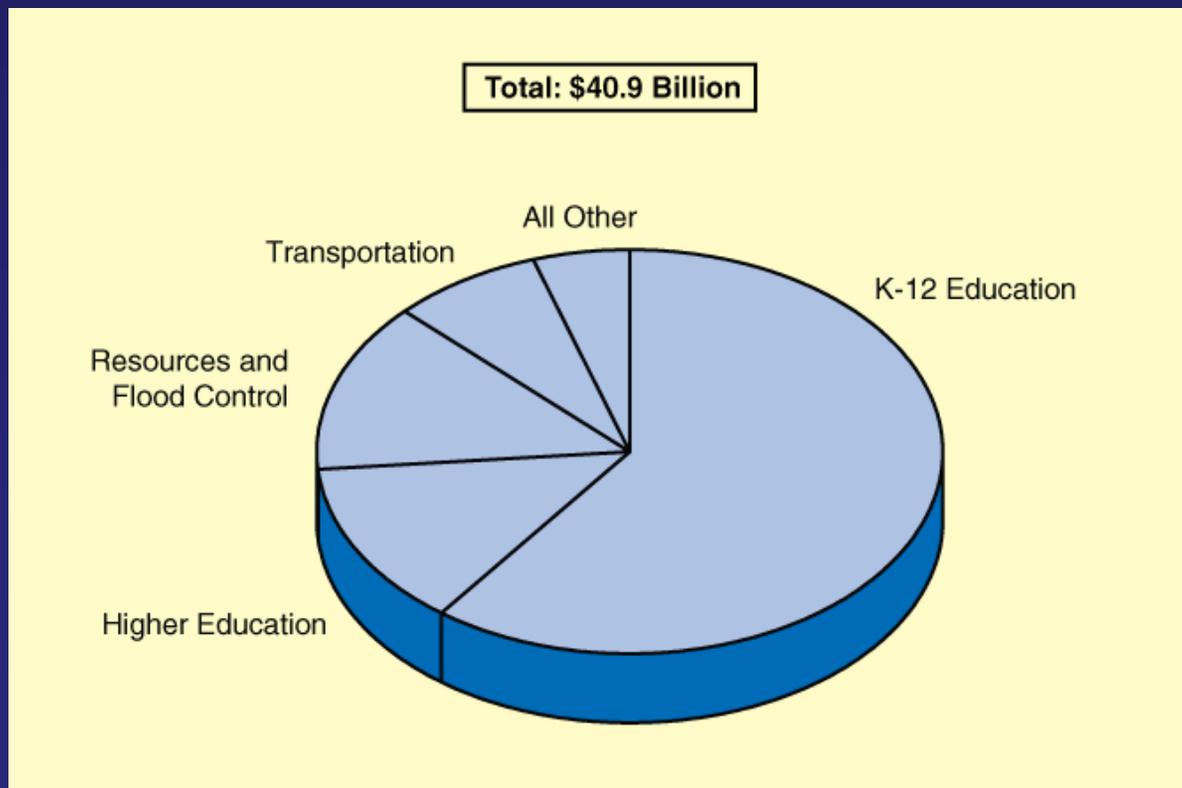
Current Outstanding Debt

As of September 1, 2007

- **GO infrastructure bonds: \$40.9 billion.**
- **GO deficit-financing bonds: \$8.3 billion.**
- **Lease-revenue bonds: \$7.7 billion.**
- **Total outstanding bonds: \$56.9 billion.**

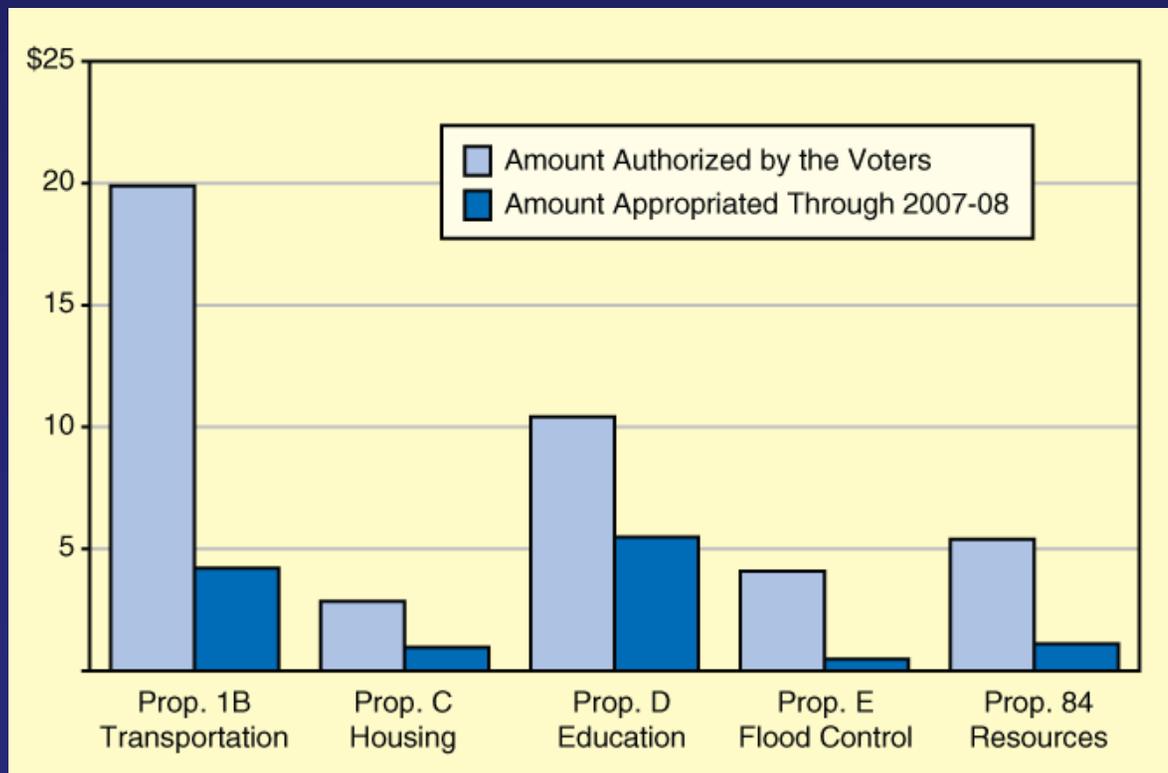
Outstanding GO Infrastructure Bond Debt by Program Area

As of September 1, 2007



Use Thus Far of the 2006 Bonds

(Dollars in Billions)

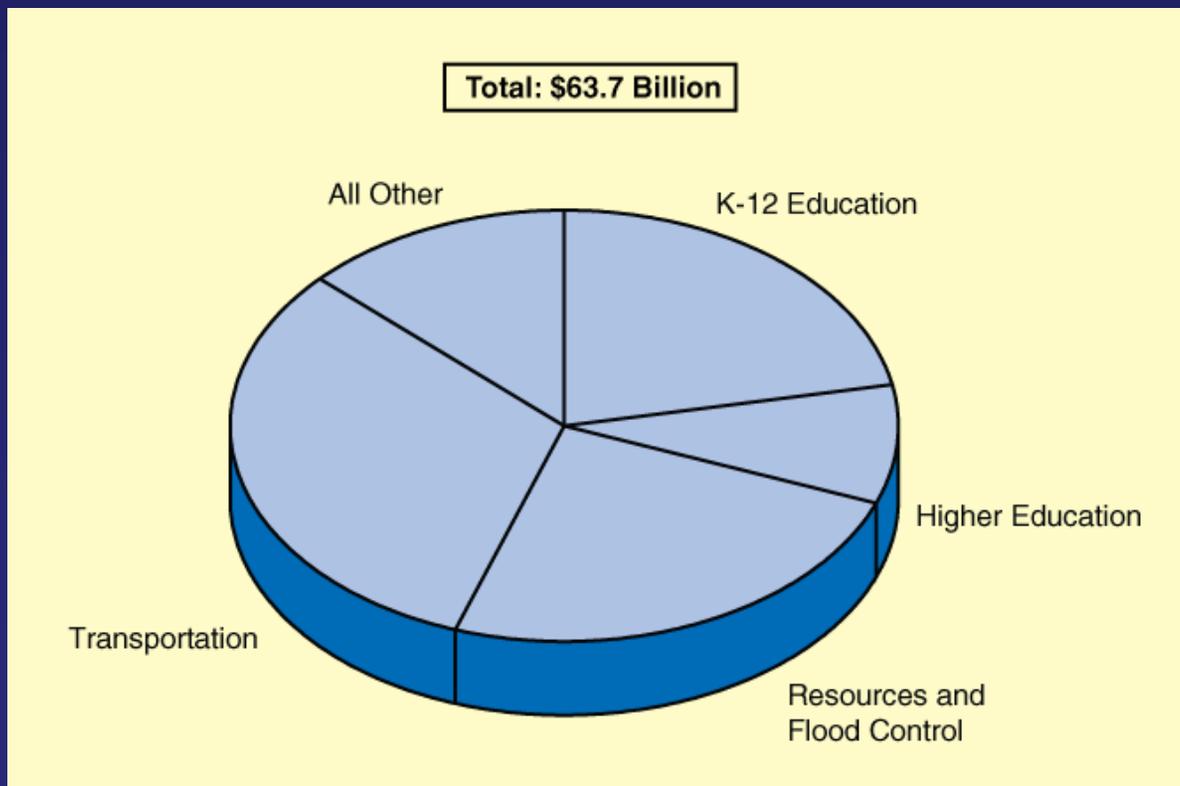


Authorized GO Infrastructure Debt Yet to be Sold

- **Authorizations prior to November 2006:
\$21.1 billion.**
- **Authorizations approved in November 2006:
\$42.7 billion.**
- **Total unsold authorizations: \$63.7 billion.**

Authorized But Unsold GO Debt By Program Area

As of September 1, 2007



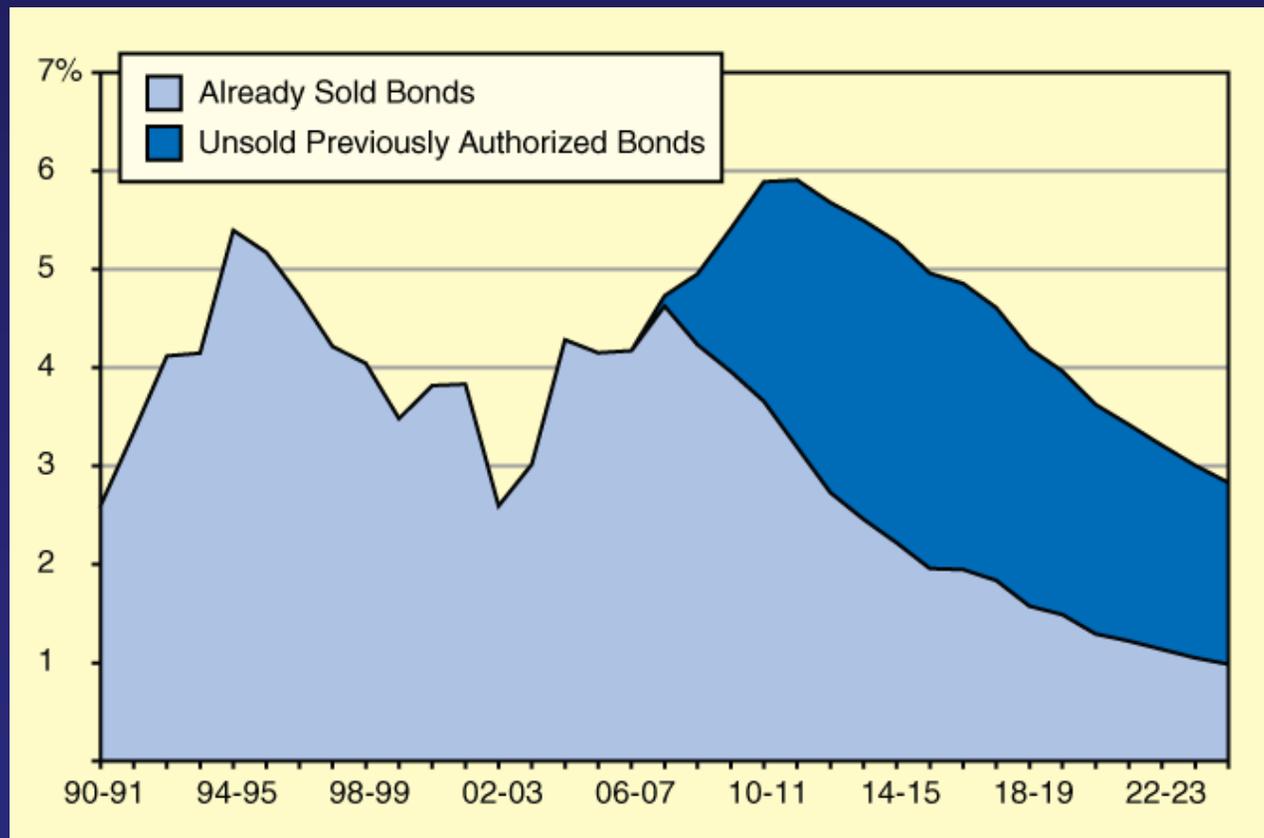
What Does Our Infrastructure Debt Cost Us Each Year?

- **Total debt service in 2007-08: \$4.8 billion.**
- **Projected to rise to \$7.5 billion in 2011-12.**
- **Currently the fourth-largest spending item in the state budget.**

Affordability— How Much Debt Is Too Much?

- No “hard rule” exists. Instead, depends on policy choices.
- Also depends on the state’s ability to sell bonds at reasonable interest rates.

Historical and Projected Infrastructure Debt-Service Ratios



Legislative Considerations

- **Determine what and how much to fund and when financing is needed, considering:**
 - State versus local responsibilities.
 - How do policy actions affect level of infrastructure needed?
 - What improvements are needed within a specified time horizon?
 - What criteria should be used to prioritize projects?

Legislative Considerations *(continued)*

- **Determine financing approaches and funding sources.**
 - What general approach should be used to fund specific projects?
 - What should be the ultimate source of funding for infrastructure investments?

Where Do We Stand?

- **Infrastructure demands—large and growing.**
- **State needs strategic, long-term approach.**
- **Current debt load in reasonable range.**
- **Payments must fit into overall budget plan.**