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Resources Bond Overview

LEGISLATIVE ANALYST'S OFFICE

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On Resources, Environmental Protection,
Energy and Transportation

Hon. Joe Simitian, Chair

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Resources Bond Status Report

☑ ***$21.8 Billion in Resources Bonds Approved Since 1996.*** As shown in the figure below, $21.8 billion of resources bonds have been approved by the voters since 1996. Of this amount, it is estimated that about $2.4 billion will remain available at the end of the budget year for appropriation in future years.

Resources General Obligation Bonds, 1996 to Present

(In Millions)

Bond	Year	Allocation	Obligated Funds	Proposed 2011-12 Budget	Balance (July 2012)
Proposition 204	1996	$870	$837	$1	$32
Proposition 12	2000	2,100	2,077	7	16
Proposition 13	2000	2,095	1,876	14	205
Proposition 40	2002	2,600	2,544	47	9
Proposition 50	2002	3,440	3,368	50	22
Proposition 1B[a]	2006	1,200	892	282	26
Proposition 1E	2006	4,090	2,590	295	1,205
Proposition 84	2006	5,388	4,034	481	873
Totals		**$21,783**	**$18,218**	**$1,177**	**$2,388**

[a] Primarily a transportation bond, this includes sections that have funds for air quality.

☑ ***What Can the Remaining Funds Be Used For?*** The $2.4 billion of bond funds remaining available for future appropriation include funding for the following program areas, mostly related to water:

- $1.2 billion for flood management (Proposition 1E).
- $505 million for integrated regional water management (Proposition 84).
- $205 million for various water projects and programs under Proposition 13, with the largest pot of funds available for Bay-Delta multipurpose projects.
- $140 million for safe drinking water (Proposition 84).
- $63 million for state parks (Proposition 84).

As shown, very few bond funds remain available for park and conservation-related purposes.

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Proposed 2011-12 Bond Expenditures

☑ ***$1.2 Billion in Proposed Expenditures.*** The Governor's budget proposes $1.2 billion in expenditures from various resources bonds in the budget year. The figure below shows the expenditures broken down by program area.

Proposed 2011-12 Resources Bond[a] Budget, by Program Area

(In Millions)

	Proposed Budget
Parks and Recreation	
State parks	$79
Local parks	217
Subtotal	($296)
Water	
Water quality	$87
Water management	345
Subtotal	($432)
Conservation	$167
Air Quality	282
Total	**$1,177**

[a] Includes Propositions 204, 12, 13, 40, 50, 1B, 1E, and 84.

☑ ***General Obligation Bond Debt Service Is the Largest General Fund Expense in the Resources Area***. The Governor's budget includes almost $1 billion from the General Fund to service resources-related general obligation bond debt in the budget year. This amount reflects 46 percent of total General Fund expenditures in the resources area. (In contrast, resources-related general obligation debt service represented 8 percent of General Fund spending for resources programs in 2000-01.) Consequently, General Fund support for other priority programs is limited by the necessity to repay general obligation bond costs.

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Cash Management and the Delayed Spring Bond Sale

- ☑ ***Debt Service and Cash Management.*** Up until relatively recently, the Pooled Money Investment Board (PMIB) would approve interim loans (known as "AB 55 loans") from the state's pooled cash accounts to move capital outlay and similar grant-funded projects forward *prior* to the issuance of state bonds that would ultimately pay for the projects. However, since December 2008, the PMIB has essentially frozen AB 55 loan funding, in part due to the increasing needs of the General Fund to borrow from the pool due to the state's cash flow and budget crises. This means that the cash to support for bond appropriations must come from bond sales, meaning that the state is occurring debt-service costs earlier than it would when AB 55 loans were available.

- ☑ ***Governor Proposes to Delay Spring Bond Sale.*** The Governor has proposed to delay the state's usual spring bond sale until later in the year because the administration considers that existing balances of bond proceeds are sufficient to cover existing projects. This pause will allow the Department of Finance to better evaluate bond-related cash needs of departments going forward.

- ☑ ***What Is Impact of Bond Sale Delay on Resources Projects?*** According to the administration, there is adequate cash on hand to carry existing bond-funded resources projects through the end of the calendar year and also some cash to dedicate for new projects. Since the bulk of the 2010-11 bond appropriations in the resources area have a multiyear encumbrance period (typically three years), expenditure commitments can be made in the out years as bond sales occur. The administration does not anticipate a problem going to the market in the fall or next spring to support the cash needs of the budgeted level of bond appropriations in the budget. (Getting the state's "fiscal house in order" might also serve to give the state better credit ratings and improved access to the bond markets.)

Slowing Down Bond Spending Across the State Budget as a Budget Solution

☑ ***Most Bond Spending Has Been Spared in the Governor's Budget.*** The Governor's budget includes a total of about $6 billion in bond appropriations. This total includes about $3.7 billion in general obligation bond appropriations and $252 million in lease-revenue bond appropriations in the budget act, and about $2 billion of continuously appropriated bond funds. This total, however, does not include billions of dollars in appropriations from previous years that will likely be spent in 2011-12.

☑ ***Governor's Budget Includes Substantial Debt-Servicing Expenditures.*** The Governor's budget includes about $4.9 billion from the General Fund for general obligation bond debt costs in the budget year.

☑ ***Governor's Bond-Related Budget Actions.*** The Governor's bond proposal does contain a number of positive elements. Specifically, it:

- Pauses appropriation of housing bonds.
- Proposes to reenact the fuel tax swap and divert transportation funds (weight fees) to offset General Fund debt-service costs.
- Delays the usual spring bond sale.

☑ ***Legislature Could Go Further in Reducing Bond Spending to Provide General Fund Relief.*** Given the state's budget situation and forecasted structural deficit, the threshold of what merits bond funding should perhaps be higher than the past. Should the Legislature choose to reduce bond spending as a budget solution, it might apply the following framework to decide what spending is warranted and what spending can be reduced:

- ***First, Consider Whether the Program/Project Is Appropriate for State Bond Financing.*** Is the program area a state responsibility? Is borrowing appropriate? (Is there a long-lasting benefit that merits repayment over many years?) Is an alternative funding source more appropriate?

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Slowing Down Bond Spending as a Budget Solution *(Continued)*

- ***Second, Consider Whether the Specific Bond Appropriation Is Necessary.*** Does the bond appropriation address a current programmatic need? Has the budget proposal been justified by the administration? Does the program have the capacity to spend or allocate additional bond proceeds? Are there policy changes or other alternatives that could achieve similar outcomes more efficiently?

- ***Third, Prioritize Appropriations Meeting the Above Criteria.*** The Legislature could prioritize bond appropriations based on any number of criteria. For example, it could prioritize projects that address fire/life/safety and public health deficiencies, leverage other funds or create state revenue opportunities, or provide an immediate economic stimulus and create jobs.