



## FINANCING INFRASTRUCTURE

September 2006

- **California spends about the same on infrastructure as the national average...**

On a real per capita basis, state and local government expenditures on capital outlays declined sharply in the 1970s in California and the nation. Spending picked up again beginning in the early 1980s and increased especially quickly between 1997 and 2002. In 2002, California spent \$931 per person on capital outlays, compared to \$917 in the nation as a whole. In real dollars, this is one-quarter more than California spent per person in 1967 – the former high point in infrastructure spending.
- **...but it spends these dollars differently.**

Reflecting an ongoing pattern, in 2002, California spent significantly more per capita than the nation as a whole on water (\$73 vs. \$44) and resources and community development (\$137 vs. \$75) and less on highways and roads (\$156 vs. \$233). A boost in spending for education facilities between 1997 and 2002 brought California close to the national average (\$239 vs. \$250).
- **General obligation bonds have become an increasingly important funding source for California.**

State government spending for capital outlay in California has increased in the past few years, primarily due to passage of state bond measures. In 2005-06, 73 percent of California's state revenues for infrastructure financing were estimated to derive from bonds, versus only 42 percent in 1965-66. Since 1972, California voters have approved \$117 billion (2005 \$) in general obligation bonds for various purposes – more than half in the past decade. About 39 percent of the funds financed K-12 school construction. A total of \$42.7 billion in state infrastructure bonds for transportation, education, flood control, water resources, and affordable housing will be placed before voters in November 2006.
- **However, debt servicing requirements may limit the state's capacity for new bonds in the near term.**

Bond funding affects the state's debt service ratio – the portion of annual general fund revenues that is devoted to principal and interest payments on debt. According to the Legislative Analyst's Office, a reasonable debt service ratio is 6 percent or less. Recent bond issues, including \$15 billion in Economic Recovery Bonds passed to help resolve the state's budget crisis, will bring debt service ratios above 7 percent from 2007-2008 until 2010-11.
- **For K-12 and higher education, recent state and local bonds may meet much of the facilities backlog.**

Rising enrollments and low per-student spending in the 1980s and most of the 1990s led to classroom shortages in K-12 education and projected shortages in higher education. Since 2001, voters have approved \$21.4 billion in state bonds and \$28.4 in local bonds for K-12 facilities, \$4 billion in state bonds for higher education, and \$14.2 billion in local bonds for community colleges. For local school bonds, the passage in November 2000 of Proposition 39, which lowered the voter majority from two-thirds to 55 percent, has been instrumental: 55 percent of the K-12 bonds and 72 percent of the community college bonds passed thanks to this lower rate.
- **California's water and wastewater utilities are largely on track to meet projected investment needs; flood control agencies face greater challenges.**

Local utilities face fewer hurdles than local governments in raising revenues because they generally need only majority approval from their boards to raise rates. Capital spending in recent years for water (\$2.8-\$3.9 billion) and wastewater (\$1.5-\$1.7 billion) lies at the high end of the state's projected annual investment needs. Local flood control agencies face greater hurdles, and many Central Valley levees need upgrades.
- **Transportation has faced the greatest funding challenges, but this trend may be reversing.**

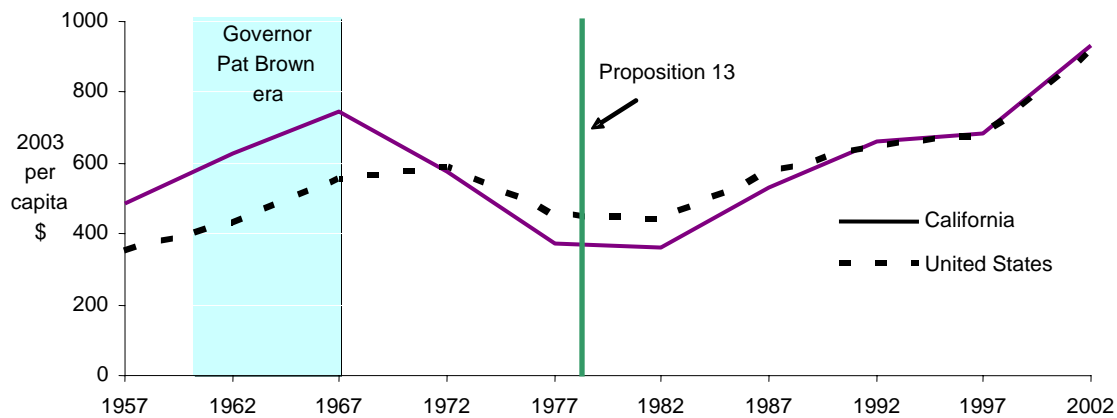
Rising fuel efficiency and inflation have eroded the value of California's main transportation funding source, the federal and state gas taxes (currently 18.4 and 18 cents per gallon, respectively). In real terms, state fuel tax revenue per vehicle mile traveled today is worth only about one-third of what drivers paid in 1970. Eighteen counties are using optional county sales taxes to help fill the gap. But getting voter approval for introducing or renewing these local taxes has become more difficult since 1995, when the voter threshold shifted from a simple majority to a two-thirds vote requirement. Proposition 42, passed in 2002, earmarked state sales tax on gasoline for transportation purposes, but funds were diverted to help resolve budget shortfalls. Recently, the outlook has improved, with Proposition 42 now being implemented and new federal transportation legislation promising an increase of 40 percent in funds to the state.

## Infrastructure Bond Measures on the November 2006 State Ballot

	Funds (\$ billions)	Proposition
Transportation, Air Quality, and Port Security	20.0	1B
Housing and Emergency Shelter	2.9	1C
Education	10.4	1D
K-12	7.3	
Higher Education	3.1	
Disaster Preparedness and Flood Prevention	4.1	1E
Water Quality, Safety and Supply, Flood Control, Natural Resource Protection, and Parks	5.4	84
<b>Total</b>	<b>42.7</b>	

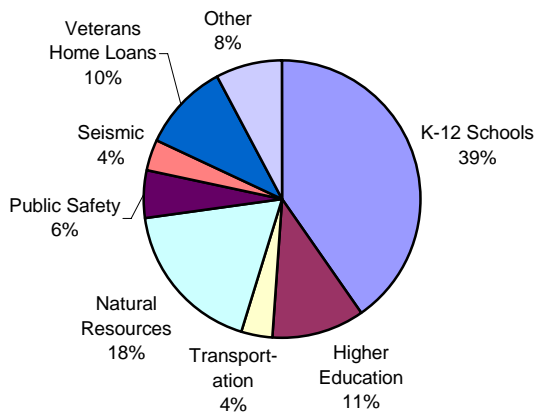
Note: A related ballot measure, Proposition 1A, would limit the ability of the Legislature and the Governor to suspend Proposition 42, approved by voters in 2002, which earmarks the state share of gasoline sales tax revenue for transportation.

## Per Capita State and Local Capital Outlay Expenditures, 1957-2002



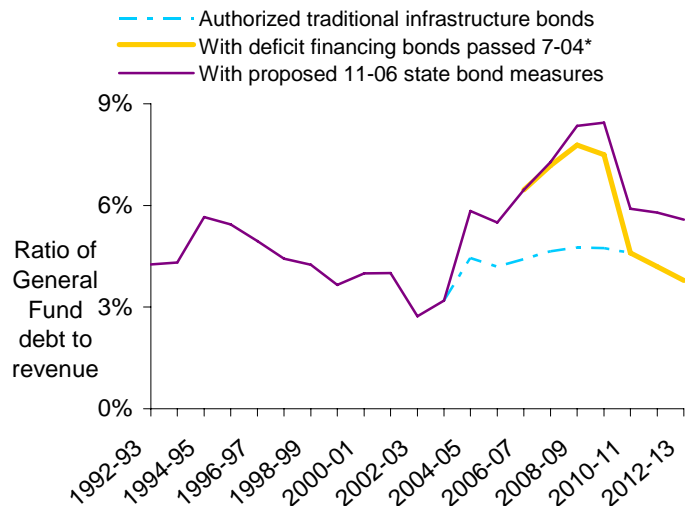
Sources: U.S. Census Bureau, California State Controller

### State General Obligation Bonds, 1972-2006 (\$116.6 billion in 2005 \$)



Source: California Department of Finance

### California's Debt Service Ratio, 1992-1993 to 2012-2013



Source: Legislative Analyst's Office, July 2006  
\* Includes supplemental payments assumed by the administration