An LAO Report

Overhauling the State's Infrastructure Planning and Financing Process

Overview

The state faces a significant challenge over the next decade and beyond to address both the deficiencies of an aging public infrastructure and the need for new infrastructure to sustain a growing economy and population. To effectively meet this challenge, the state needs a well-defined process for planning, budgeting, and financing necessary infrastructure improvements.

Unfortunately, the state's current capital investment process suffers from a myriad of problems:

- Neither the administration nor the Legislature evaluates statewide infrastructure needs and infrastructure investment as a program in and of itself.
- Proposals are reviewed in isolation of each functional area—an approach that does not allow examination of how competing proposals fit within a context of overall state infrastructure needs, priorities, and funding capabilities. The result is that capital investment decisions are made more on an ad hoc basis.
- The state lacks a stable funding source for its infrastructure programs. Thus, infrastructure investment suffers great variability and uncertainty even though the need to address deficiencies is significant and ongoing. This has led to an underinvestment in the state's infrastructure.

LAO Recommendations

To address these problems, we recommend that the Legislature overhaul the planning, budgeting, and financing of the state's infrastructure by:

- Developing an integrated statewide infrastructure plan.
- Adopting a policy that dedicates 6 percent of annual General Fund revenues to infrastructure investment.
- Establishing legislative committees to oversee development and financing of the statewide infrastructure plan.

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INTRODUCTION

One of the basic functions of government is to provide the public infrastructure—land, streets and highways, buildings, and utility systems—that is integral to delivering public services, fostering economic growth, and enhancing the quality of life. The state and local governments in California have developed an immense inventory of public infrastructure. For example, the state owns almost 2.5 million acres of land, 180 million square feet of building space, and 15,000 miles of highways. Local governments own thousands of schools, as well as water treatment facilities, streets, jails, libraries, and parks.

Accommodating the state's ever-growing population will require a vast array of *new* public infrastructure costing billions of dollars to construct. This, in turn, will require ongoing funding for operations and maintenance.

Furthermore, California's infrastructure is aging and much of it is in need of repair and renovation. For example, about 55 million square feet (45 percent) of the total building space in the three public higher education segments in California was built or renovated before 1970. (This amount exceeds *all* building space in the 107-campus community college system.) Also, most of the 9.5 million square feet of buildings in the state hospitals and developmental centers was built before 1960. In addition, a 1995 report indicated that almost one-third of the state highway system was in need of corrective maintenance or rehabilitation and over 50 percent of state highway bridges are over 30 years old. In general, the need for renovation has been exacerbated because of insufficient spending for routine maintenance and repair of facilities. Consequently, even if demand for various government services did not grow, there would still be a need to invest tens of billions of dollars over the next decade to renovate aging public infrastructure.

Addressing the issues of growth and of aging infrastructure poses a significant challenge. Infrastructure decisions involve large commitments of funds and require long-term planning and implementation time frames. To effectively assess the enormous variety and complexity of requested capital projects, the state needs a well-defined process for planning, budgeting, and financing these projects.

Unfortunately, the state currently lacks such a process. As a result, capital investment decisions are made more on an ad hoc basis. Funding proposals are often considered without an overall sense as to how any proposal fits within statewide needs and priorities or how it affects the state's ability to finance those and other needs over time. In order to better address the issue of infrastructure planning, financing, and budgeting, we believe it is time to overhaul the state's approach to this issue.

In this report, we describe the myriad of problems with current infrastructure planning and financing and propose solutions to address these problems. It is our hope that the new administration will work with the Legislature to overhaul the current process. In view of the importance of this issue, however, the Legislature should initiate the development of a long-term infrastructure plan if the administration does not indicate a willingness to take a new approach by spring 1999. In addition, to effectively address statewide infrastructure issues, the Legislature should alter its process for making infrastructure financing decisions.

WHAT ARE THE PROBLEMS

Figure 1 shows our assessment of the major problems and the effect that these problems have with regard to planning and financing infrastructure. A discussion of each problem follows.

Infrastructure Investment Not Treated As a Program

Neither the executive branch nor the Legislature has evaluated statewide infrastructure needs and infrastructure investment as a program in and of itself. Instead, proposals are developed, reviewed, and funded in the isolation of each functional area, such as prisons, water, and state office buildings. This approach to capital outlay decision-making does not

Figure 1

Problems With Current Infrastructure Planning and Financing Process

Problem	Result
Infrastructure investment not treated as a program.	Ad hoc decision-making process.
Inadequate assessment and documentation of state-owned infrastructure needs.	Do not have good foundation for establishing a statewide infrastructure plan.
Programmatic goals often not clearly defined.	Cannot determine relative importance of infrastructure investments and the extent to which funding proposals address state policies.
No criteria for setting statewide priorities.	Cannot establish relative importance of projects from a statewide perspective.
No stable funding source.	Underinvestment in infrastructure renovation and new construction. Deferral of infrastructure improvements when bonds not approved by voters.
State/local funding responsibilities not articulated.	Significant state support for certain local infrastructure, but not considered in the context of statewide needs and the state's primary responsibility to provide adequate state-owned facilities.
Local infrastructure needs are not well defined.	Cannot determine appropriate allocation of state funds to local programs.

allow an examination of how competing proposals fit within a context of overall state infrastructure needs, priorities, and funding capabilities. The result is an ad hoc process that has not and will not meet either the requirements of an aging statewide infrastructure or the need for new infrastructure to sustain a growing economy and population.

Inadequate Assessment and Documentation of State-Owned Infrastructure Needs

To develop a credible long-term strategy for funding state infrastructure, the Legislature must have accurate information on both the inadequacies of existing infrastructure and the need for new infrastructure in all program areas. The state currently lacks a comprehensive assessment.

Each year, most state agencies prepare project specific five-year capital outlay plans. While these plans give a general idea of the magnitude of capital outlay needs in state-owned facilities, they are prepared with varying degrees of rigor and many plans are seriously deficient. For example, there is no consistency in how departments either assess or report their five-year needs. Some departments quantify their infrastructure needs based on their assumption of future availability of funds rather than program requirements. Some five-year plans are simply a list of projects without a description of program objectives and how the projects fit within those objectives. Furthermore, most of the departments' plans do not (1) include clearly stated criteria to demonstrate how priority-setting decisions are reached or (2) establish department-wide priorities for the five-year period. As a result, most five-year plans fall short of providing a clear understanding of the condition of existing facilities and the need to renovate and/or to construct new facilities. Consequently, the current departmental plans do not provide a good foundation for establishing a statewide infrastructure plan.

In addition to the five-year plans, the Department of Finance produces a ten-year capital outlay and infrastructure report. This report estimates the ten-year needs for state facilities based on the five-year plans plus each department's assumption of funding requirements in years six through ten. The report also discusses the needs for some local infrastructure programs and the state's ability to finance both the state and local needs. The ten-year report does not show funding priorities or evaluate which programs should be funded over the ten-year period. As a result, this report also falls short of being a useful long-term planning document.

Programmatic Goals Often Not Clearly Defined

In order to determine the appropriate capital investments for any program, it is first necessary to establish programmatic goals—based on a strategic program plan—and then identify the infrastructure and time frames that are needed to meet those goals. For example, the Department of Transportation prepares the State Highway Operation and Protection Program—a ten-year plan for rehabilitation of the existing state highway system pursuant to a series of established goals. Examples of these goals are (1) reducing deteriorated pavement to 5,500 lane miles and (2) constructing 1,800 lane miles of longer-life pavement on highways where traffic volume exceeds specific levels.

For many programs, particularly in the area of natural resources, goals are so vague or nonexistent that it is impossible to determine the relative importance of infrastructure investments. For example, current law declares broad state policies such as maximizing coastal access and protecting marine resources and land resources. The state, however, in most cases, lacks specific goals for implementing these policies. Examples of such goals might be: a given number of coastal access points for each coastal area and a given proportion of coastal wetlands to be maintained or restored.

Without such goals, there is no way to measure the effect of the state's capital expenditures and whether the state is on track toward meeting the Legislature's policy objectives. A program goal, for example, is not simply to purchase land. Rather, the state must decide the *purpose* of land acquisition and how the purchases further a programmatic end. The state has invested considerable resources in efforts such as preserving open space, protecting wildlife habitat, and developing and operating a state park system. Without measurable goals for these and other programs, however, the amount or effective use of future funding cannot be determined.

No Criteria for Setting Statewide Priorities

The state lacks a methodology for setting priorities in the context of statewide goals and objectives. In order to establish priorities among the disparate goals and functions of various programs and to allocate resources among programs, it is essential to have a means of establishing the relative importance of projects from a statewide perspective. In other words, the state has no method of ranking the various capital outlay proposals. Absent such a priority ranking, the Legislature cannot assess infrastructure demands across programs and evaluate the trade-offs of funding different proposals in order to ensure that the state will get the "biggest bang for its buck."

No Stable Funding Source

Currently, highway construction and renovation is the only state infrastructure program that has reliable, dedicated revenue sources (state gas taxes and federal funds). As a result, the program has not had to use bonds for most of its capital needs. A few natural resources programs have special funds, such as the Environmental License Plate Fund, that can be used either for capital outlays or program operations. Most other infrastructure programs, however, require either direct General Fund appropriations or bond financing that is repaid from the General Fund.

Over the last five years, General Fund expenditures for debt payment on bonds totaled about $11.5 billion while direct General Fund appropriations for capital outlay totaled $735 million.

(Three-fourths of the direct appropriations [$530 million] occurred in 1998-99, of which $230 million was to purchase a portion of the Headwaters forest.) Over this five-year period, *direct* General Fund appropriations for capital outlay were *0.3 percent* of total General Fund revenues while debt payments totaled 4.6 percent of revenues. Thus, outside the transportation area, the state is devoting a minuscule amount of pay-as-you-go funding for infrastructure and is instead relying on bond authorizations, most of which first require approval by the electorate.

Given this financing situation, there is really no stable funding source year-in and year-out for most state infrastructure projects. Those programs which typically have been funded through bonds must wait to see if a bond authorization is placed on the ballot and then wait further to see if voters approve the measure. (For example, twice in the last eight years, voters disapproved proposals for higher education funds.) While this process results in instability for those programs, at least they have the prospect of infrastructure funding.

Most state programs, however, are not funded from bonds. As a result, there have been little or no funds routinely available for projects to, for example, upgrade or replace facilities in the state prisons and the state park system. This, in turn, has contributed to an underinvestment in certain components of the state's infrastructure.

State/Local Funding Responsibilities Not Articulated

A basic consideration for the state is which specific infrastructure programs should be financed with state resources. Currently, the state pays for state-owned infrastructure (such as universities, prisons, and state parks), but has also provided substantial infrastructure funding for local government (school districts, cities, counties, and special districts). For example, about 60 percent of the state's debt payments in 1998-99 are for non-state-owned facilities. (One-third of state debt payments are for K-12 school projects. We discuss the state's role in funding school facilities later in this report.) About two-thirds of the $35 billion in state general obligation bonds approved by the voters since 1986 have been for nonstate facilities. The state bond measure approved by the voters in November 1998 included $6.7 billion for K-12 schools plus additional funds for community colleges. Other bond measures that the Legislature considered during the 1997-98 legislative session would have provided hundreds of millions of dollars for local projects such as water quality, parks, and juvenile detention facilities.

In general, considerations of state financing for local government infrastructure have not been prefaced by basic considerations such as:

- What is the statewide interest in these programs?
- What is the state's responsibility for these local infrastructure programs?

- Can the state afford to provide this funding *and* also meet its state-owned infrastructure needs?

- Why are locals unable to fulfill the responsibility for their own infrastructure?

There may be sound reasons for using state funds for local government infrastructure. These funding decisions, however, should bear in mind that *the state is solely responsible for providing adequate facilities for state-operated programs.*

Local Needs Are Not Well Defined

While the state has less than optimal capital outlay plans for state-owned infrastructure, statewide needs assessments for local infrastructure are typically even more sketchy or in some cases nonexistent. In general, local entities do not provide the state with program or project-specific data on local infrastructure needs. Instead, if needs estimates are available, they are often based on historical levels of local funding requests or on broad assumptions that, at best, only portray the general magnitude of need. For example, in the recent debate over funding school construction and modernization, the Legislature had two estimates of ten-year needs that used widely varying assumptions and produced significantly different estimates—$19 billion (from the Department of Finance) and $36 billion (from the Department of Education), respectively. In addition, the Legislature considered a bond proposal for the November 1998 ballot that would have funded a variety of water-related programs. However, in most cases, no comprehensive needs assessments were available to guide the Legislature in determining either the highest priority needs or the appropriate funding level. Without better information on local needs, the Legislature cannot determine effectively the appropriate allocation of state funds for local infrastructure programs.

Summary

In our view, the problems outlined above are serious ones that touch on virtually all aspects of the way the state currently plans, budgets, and finances its infrastructure. Accordingly, we believe that the state should overhaul its existing capital outlay process.

Recommended Actions

To improve the state's infrastructure planning and financing process, we recommend the following actions:

- Develop and implement for each state program a capital outlay plan that identifies infrastructure needs based on the long-term goals and objectives of the program.

- Determine which local government infrastructure programs the state will continue to fund and obtain information on needs for those programs.

- Prepare an integrated plan based on statewide priority-setting criteria.
- Provide steady, stable funding for the infrastructure plan.
- Establish legislative committees specifically to develop and oversee overall policies regarding statewide priorities, financing, and implementation of the plan.

We discuss these recommendations in more detail below. (We note that the States of Minnesota and Washington have in recent years implemented changes to their infrastructure planning processes that are in many ways similar to our recommendations.)

Develop Goal-Oriented Capital Outlay Plans for State Departments

As discussed above, current five-year plans are deficient and do not provide a foundation to establish a statewide plan. Because the information typically provided in departments' capital outlay plans is so limited, it is unclear to what extent the identified capital outlay projects fit within a comprehensive planning framework. Identifying capital outlay needs should not be difficult if done within the context of a department's strategic plan and the programmatic goals and objectives derived from that plan. To correct these deficiencies, we recommend that each department's plan clearly describe long-term programmatic goals and objectives and identify the infrastructure needed to meet those goals. Figure 2 describes what we believe should be included in the plans.

Figure 2

Necessary Elements of Departmental Capital Outlay Plans

- ☑ Department mission statement and long-range strategic goals.
- ☑ Trends, policies, and other issues affecting the demand for services and facilities.
- ☑ Assessment of the condition, suitability, and functionality of present facilities to determine whether or not those facilities:
  - Have critical life safety conditions that must be corrected.
  - Meet current program requirements.
  - Meet future program requirements.
  - Have reached or are beyond their normal useful life and require major capital expenditure for renovation or replacement.
- ☑ Identification of the need for additional facilities required to meet the mission, goals, and objectives of the program as established by state policies.
- ☑ Project scope and cost estimates for existing and new facilities based on the above assessment.
- ☑ Departmental priorities based on meeting programmatic goals and objectives, including the methodology used for selecting and setting priorities.

With a completed needs assessment and priority list of projects, a long-range plan can be prepared by scheduling the projects over a multiyear period according to the established priorities. This scheduling should account for the time frame for completing each project in order to meet program demands and also the ability of the state to successfully manage the resulting workload and project-related program disruptions.

Preferably, individual departments would prepare long-range, project-specific plans covering a *ten-year* period. Initially, however, in order to expedite the development of an integrated statewide plan, departments should focus on improving their current five-year capital outlay plans. Within a relatively short time period—two to three years—departments should extend their project-specific planning to a ten-year horizon.

Determine Which Local Programs Should Receive State Assistance

As noted earlier, the state is solely responsible for meeting the infrastructure requirements of *state-owned* facilities. Nevertheless, under certain circumstances, it is appropriate for the state to provide funding assistance to local governments. In order to ensure that state assistance is truly necessary, however, we believe it is essential for the state to consider the following issues:

- Why do local government entities need state assistance to finance their infrastructure? Are the costs too high relative to their financial condition? Do statutory or constitutional requirements unduly hinder local financing?
- What types of facilities or projects serve a statewide or regional purpose rather than a local purpose?
- What statewide interest is served by financing certain local projects? Public safety? Spreading the cost burden among more taxpayers?
- What level of funding can the state afford while also meeting the infrastructure needs of state-owned facilities?

Obtaining answers to the above questions will provide a framework for determining the types of facilities and the appropriate levels of state involvement in local infrastructure finance. We believe that state support for local infrastructure should be at a level that does not hinder the state's ability to adequately address its own facilities needs and should be limited to funding projects that (1) serve more than just a local interest or (2) absent state support, could not be undertaken.

What About K-12 Schools?

As mentioned earlier, by far the largest state involvement in local infrastructure finance is for school facilities. With future sales of authorized state school bonds, including the $6.7 billion approved in November 1998, we estimate that annual state debt payment for school facilities will increase over the next five years from the current $850 million (1.5 percent of General Fund revenues) to $1.2 billion in 2003-04 (1.6 percent of General Fund revenues). Given the projected growth in school enrollments and the condition of older school buildings, even after these bonds are allocated to school districts over the next four years, there will continue to be a multibillion dollar need for school construction and renovation for at least several more years. Under provisions of the new state school facilities program, the state will generally pay for 50 percent of new school construction costs and 80 percent of renovation costs.

Thus, the state currently plays a key role in the provision of local school facilities—not only in providing major financial support but also in devising the specific mechanisms local schools must use to receive such aid. In reexamining the state's infrastructure process, we would encourage the Legislature to carefully evaluate its current role with regard to school facilities.

Obtain Better Information on Local Infrastructure Needs

In general, a comprehensive assessment of the needs for the various local infrastructure programs that have received state support has not been available. For example, local assistance programs to improve water quality are designed to help local agencies meet federal and state standards that apply to their operations and/or to help meet statewide goals. The costs for addressing water quality needs at the local level are believed to be substantial—likely in the billions of dollars—but a comprehensive needs assessment is not available to document the level of need or how best to proceed with development of the necessary infrastructure. Thus, the Legislature does not have the information it needs to evaluate funding priorities both within the water quality program and among water quality and other program areas. In recognition of this problem, the Legislature, in the *Supplemental Report of the 1998-99 Budget Act*, required the State Water Resources Control Board to provide specific information on the infrastructure needed in this area.

After it has been determined which of the local infrastructure programs the state will fund, the Legislature should obtain more definitive needs assessments for each program based on legislatively approved criteria. Only with such information can the Legislature decide how to appropriately allocate resources to local programs and projects.

Develop and Implement a Statewide Capital Outlay Plan

Ultimately, the Governor and the Legislature will decide which infrastructure projects to undertake and how to fund them. In order to ensure that these decisions are based on the best available information and result in addressing the highest priorities on a statewide basis, the departmental capital outlay plans and local infrastructure assessments must be integrated into a statewide plan. This entails providing an assessment of the comparative value of diverse and competing capital outlay projects among the various programs based on statewide priority setting criteria established by the Legislature. This can be accomplished by (1) defining the criteria, (2) determining a weighting factor for each criterion based on its relative value compared to all other criteria, and (3) applying these factors based on the degree to which a project meets each criterion. There are numerous criteria that could be used for this purpose. Figure 3 provides examples of potential criteria.

The statewide plan which contains this information should be assembled in a document that would then serve as the basis for infrastructure decisions by both the administration and the Legislature. The administration should publish the statewide plan as a separate capital budget document at the time the budget is submitted in January of each year.

Figure 3

Potential Criteria for Setting Statewide Infrastructure Priorities

- **Critical Life Safety**
  - Corrective action is deemed urgent and unavoidable.
- **Departmental Strategic Linkage**
  - Has the department articulated its strategic mission and how closely is the project linked to the department's strategic plan, state statutes, and other state policies?
- **Statewide Strategic Linkage**
  - How well does the project address major statewide goals and objectives (for example, what is the trade-off between acquiring additional coastal property compared to acquiring a new state office building) as determined by the Legislature.
- **Public Service/Statewide Significance**
  - How strongly does the project improve services for the public and does it benefit the entire state, a particular region, or primarily a local community?
- **Asset Management**
  - Does the project reuse existing facilities rather than construct new facilities?
- **Operating Savings or Efficiencies**
  - Does the project result in operating savings or efficiencies?

Provide Steady, Stable Funding for the Infrastructure Plan

As we noted earlier, there is a great deal of uncertainty regarding the amount of new funding available each year for state infrastructure priorities. Those programs which typically rely on bond funds depend on voter approval of new authorizations and other programs depend on healthy revenue years to have a chance for direct General Fund support.

Thus, instead of funding infrastructure on a relatively steady basis year-to-year—it has more of a "boom-bust" experience. That is, it suffers from greater variability and uncertainty. The need to address deficiencies in the state's infrastructure, however, is an ongoing one.

In our view, the state needs to take two main steps to provide a more stable source of funding for its infrastructure needs:

- Dedicate a given level of General Fund resources for infrastructure.
- Within that funding level, reserve a greater proportion for "pay-as-you-go" spending on capital assets.

Infrastructure Investment Policy

In recent years, the state has spent around 5 percent of its General Fund revenues on infrastructure. (Almost all of these expenditures have been for debt payments on previously issued bonds, with a small portion for direct—or pay-as-you-go—spending on capital projects.) While there is no "right" amount to set-aside for infrastructure, we recommend that the Legislature establish an investment policy that would devote 6 percent of annual General Fund revenues to infrastructure spending for at least the foreseeable future. This level is in keeping with the legislation—Chapter 407, Statutes of 1998 (SB 50, Greene)—that placed the $9.2 billion education bond on the November 1998 ballot. This legislation encouraged the sale of those bonds in a manner such that debt payments would not exceed 6 percent of General Fund revenues.

The sale of bonds creates an obligation on the General Fund usually for 20 to 30 years—funds which are then unavailable for any other purpose. Based on the reference in Chapter 407, there appears to be general consensus that 6 percent of General Fund revenues could be dedicated to pay for infrastructure investments financed with bonds. Adopting a policy that would dedicate this 6 percent to infrastructure investment in general (debt payment or direct appropriation) would (1) recognize that the state has a significant challenge of meeting its infrastructure needs and (2) address that challenge with an ongoing *program*.

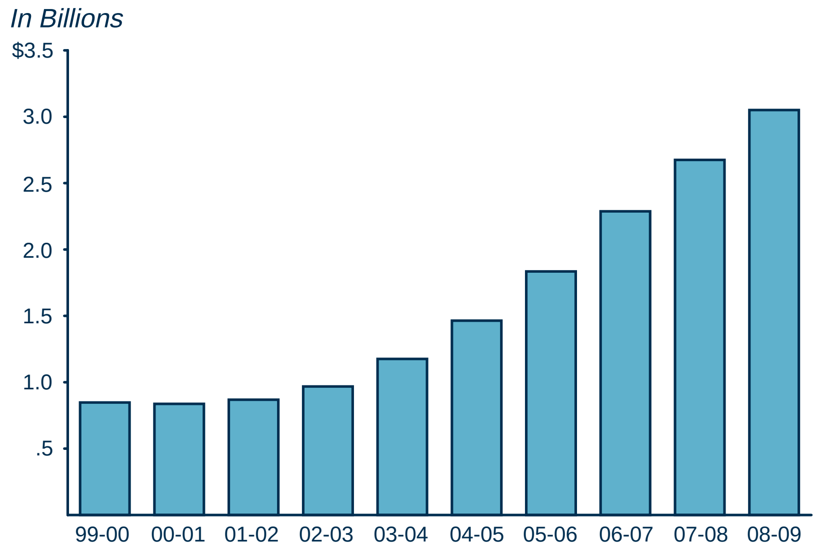
Provide More Pay-As-You-Go Resources

In addition to setting a specific investment level, we recommend that the state increase the amount of funds within this level that is spent on direct General Fund appropriations (as opposed to debt payments). This will accomplish two goals: (1) provide more stable funding for infrastructure investments and (2) get a "bigger-bang-for-the-buck" with state expenditures. For illustration purposes, Figure 4 shows the amount of direct General Fund appropriations that could be made available for infrastructure in each of the next ten years with a 6 percent investment policy and if no new bonds are authorized. Under this scenario, direct appropriations could total about $800 million in 1999-00, increasing to $3 billion in the tenth year (a total of nearly $16 billion over the next ten years).

There will, of course, be infrastructure that the state will want to finance with new bonds (such as a project with very large costs). Thus, within the 6 percent investment level, the Legislature could

Figure 4

Future Amounts Potentially Available for Pay-As-You-Go Funding of Infrastructure[a]



[a]Assumes the state spends 6 percent of annual General Fund on infrastructure (direct appropriations and debt service) and with no new bond authorizations after 1998.

change the mix of debt and pay-as-you-go funding depending on the circumstances. The important point is that the state set aside a specific amount for an infrastructure investment program and increase pay-as-you-go funding to bring some stability to statewide infrastructure finance.

In our recent November fiscal forecast, we project that the state will have budget deficits for the next few years absent any corrective actions by the Legislature and the Governor. Under these circumstances, we realize that significantly increasing General Fund spending for infrastructure will be difficult. However, the Legislature should address the need for an *ongoing* program of infrastructure investment as part of any solution to the state's overall budget.

Establish Legislative Committees to Focus on Statewide Infrastructure

An essential ingredient in improving the state's planning process is a commitment by the administration and Legislature to focus on this issue and address it in a comprehensive manner. This would require the administration to undertake the planning, as discussed above, that is necessary to ensure the state's infrastructure requirements are met. While we hope that the new administration will work with the Legislature to improve the planning process, the Legislature should develop a long-term plan if the administration does not indicate a willingness to take a new approach by spring 1999. In either case, this will require legislative changes to ensure a focused involvement for this statewide program of infrastructure investment.

Infrastructure planning and financing is a complex issue because it is related to a wide variety of state-funded services and involves a long-term vision of state development. In recognition of the need for a comprehensive and proactive approach to this issue, we recommend that the Legislature establish committees—such as a policy or select committee in each house or a single joint committee—to develop and oversee statewide infrastructure policy. Assuming that the new administration will direct departments to improve their five-year capital outlay plans and will agree to prepare an integrated statewide plan, the important considerations and decisions for the committees would include:

- Determining which local programs should receive state funding.
- Establishing statewide criteria for setting priorities across programs.
- Reviewing and approving the integrated capital outlay plan.
- Determining the appropriate financing mechanisms within the 6 percent investment parameter.

Regularly reviewing the long-range plan to determine whether it is still valid with regard to program needs and monitoring the state's progress in implementing the plan.

By accomplishing the above steps, the legislative committees would establish the basic parameters for development of a statewide infrastructure plan. Implementation of the statewide plan—through funding approval of specific projects—should be part of the annual budget process. We recommend two changes to the current budget process that would help the Legislature focus on infrastructure as a *statewide* program. First, rather than displaying each department's capital outlay budget proposal immediately after the operating budget, *all* capital outlay proposals should be grouped together in a separate section of the budget bill as was done prior to 1981. This would clearly and concisely show the entire capital outlay program. Second, we recommend that the Legislature establish a separate budget subcommittee in each house to consider *all* capital outlay budget proposals and determine whether the proposals are consistent with the long-range plan.

Conclusion

California faces a significant challenge in addressing its infrastructure needs over the next decade and beyond. It is essential that the administration and the Legislature adopt a long-term perspective toward infrastructure planning and financing. It is simply too important an issue to continue making decisions on an ad hoc basis.

What About Highways?

As part of its consideration of financing the statewide infrastructure plan, the Legislature should also consider whether the projected state and federal revenues for highway infrastructure are sufficient to meet the state's goals for maintaining, rehabilitating, and expanding the highway system. If revenues are determined to be inadequate, one option to close the funding shortfall would be the General Fund (either with pay-as-you-go or bond financing). This approach, however, should be considered in the context of competing needs for other infrastructure programs that are dependent on the General Fund. Other funding options for highways that would not have a General Fund impact are (1) increasing gas taxes and/or truck weight fees or (2) proposing bonds to be repaid from transportation revenues rather than the General Fund.

Figure 5 summarizes the problems we identified with the current process and the actions we recommend to address those problems.

Developing and adopting the initial statewide infrastructure plan will be a considerable one-time undertaking, and it would take a few years to fully implement all of our recommendations. Moreover, any statewide plan must be a flexible document requiring regular review and updating. Overhauling current practices, however, will allow the administration and the Legislature to be better informed and proactive in addressing the state's infrastructure needs. We believe that implementing the recommendations we have outlined will help the state to maximize the benefits of its investment in infrastructure in the years to come.

Figure 5

LAO Recommended Actions to Address Problems in Infrastructure Planning and Financing Process

Problem	Recommended Action
Infrastructure investment not treated as a program.	Develop integrated statewide infrastructure plan; establish committees to set policy for infrastructure planning and finance; display all capital outlay budget proposals in separate section of the budget; establish a separate budget subcommittee in each house to consider all capital outlay budget proposals.
Inadequate assessment and documentation of state-owned infrastructure needs.	Require departments to provide specific information to improve five-year plans and extend plans to a ten-year period.
Programmatic goals often not clearly defined.	Establish programmatic goals as a basis for identifying infrastructure needs in departmental capital outlay plans.
No criteria for setting statewide priorities.	Legislature should establish statewide priority-setting criteria.
No stable funding source.	Adopt policy that devotes 6 percent of annual General Fund revenues for infrastructure investment; increase level of pay-as-you-go funding for infrastructure.
State/local funding responsibilities not articulated.	Determine which local government infrastructure programs the state will continue to finance based on considerations of specific parameters for providing local assistance.
Local infrastructure needs are not well defined.	Obtain definitive information on infrastructure needs for local programs the state will continue to fund.

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