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An Overview: Transportation Infrastructure Proposals and Their Financing

LEGISLATIVE ANALYST'S OFFICE

Presented To:

Assembly Transportation Committee

Hon. Jenny Oropeza, Chair

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Systematic Infrastructure Steps

- ☑ Recognize program drives facilities/infrastructure, rather than facilities driving program
- ☑ Assign infrastructure responsibilities between the state and local government as well as private sector
- ☑ Consider actions that reduce demand for infrastructure
- ☑ Apply criteria to establish funding priorities
- ☑ Address practical considerations

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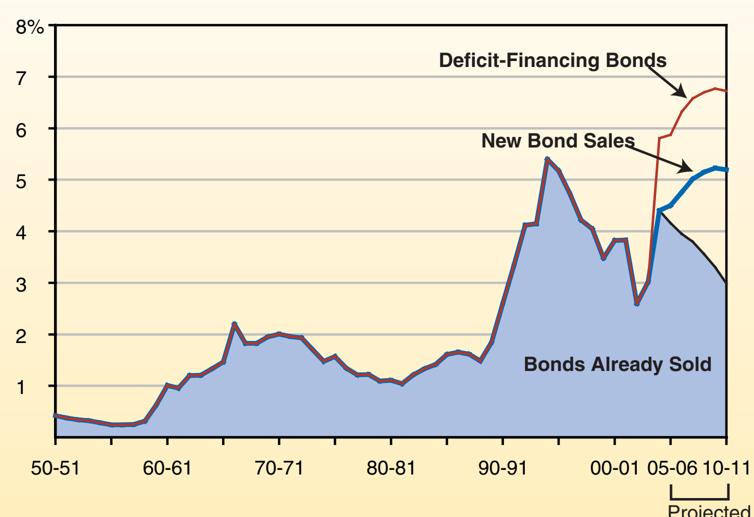
State's Debt Situation

- ☑ Once bonds are sold, the state makes debt-service payments, generally over 30 years, to investors. In the current year, such payments related to infrastructure bonds total $3.9 billion. In addition, the state makes payments to retire the deficit-financing bonds—these payments total $1.2 billion in the current year.

- ☑ Each $1 billion of new bonds sold currently adds close to $65 million annually for as long as 30 years to state debt-service costs.

- ☑ The debt-service ratio (DSR) compares these payments to annual General Fund revenues. In November, we estimated that the DSR would stand at 4.8 percent in 2006-07 for infrastructure bonds and 6.3 percent if the deficit-financing bonds are included. Over our forecast period we estimated the DSR would peak in 2009-10 at slightly over 5.2 percent for infrastructure bonds and 6.8 percent if the deficit-financing bonds are included, and decline slowly thereafter as outstanding bonds are retired and new sales occur (see figure below).

California's General Fund Debt-Service Ratio[a]



[a]Ratio of debt-service payments to revenues and transfers.

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Types of Bonds

☑ ***General Fund-Supported***

- ***General Obligation***—Must be approved by the voters and their repayment is guaranteed by the state's taxing power. Most of these are directly paid for by the General Fund, although there are some that are paid off from designated revenue streams like veterans' mortgage payments.

- ***Lease Revenue***—Authorized by the Legislature. They are paid off from lease payments (primarily financed by the General Fund) by state agencies using the facilities they finance. Because these are not guaranteed, they have somewhat higher interest costs than general obligation bonds.

☑ ***Traditional Revenue Bonds***—Paid off by a designated revenue stream—usually generated by the projects they finance—such as bridge tolls, parking garage fees, or water contract payments. These bonds normally do not require voter approval.

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How Much Debt Is Appropriate?

☑ **No Accepted Rule for How Much Debt Is Too Much**

☑ **Policy Choices Based On:**

- Infrastructure versus other spending.
- Borrowing versus pay-as-you-go.
- What level of taxes and charges are appropriate to fund infrastructure.

☑ **Marketability of Bonds**

- Investor confidence.
- Reasonable interest rates.

☑ **State's Bond Ratings**

- Investment grade ratings by three major rating agencies.
- Lowest of all states rated by these agencies.
- Ratings principally related to factors other than amount of debt outstanding—namely, budgetary imbalance.

☑ **Debt-Service Cap**

- Could interfere with optimal mix of spending.
- Could encourage less-than-optimal bond maturity structures.
- Could lead to distortions of General Fund revenues.

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Governor's Strategic Growth Plan

(In Billions)

Program	Ten-Year Totals: General Obligation Bonds	Existing Sources	New Sources	Totals
Transportation/air quality	$12.0	$47.0	$48.0	$107.0
K-12	26.3	21.9	—	48.2
Higher education	11.7	—	—	11.7
Flood control and water supply	9.0	21.0	5.0	35.0
Public safety	6.8	5.1	5.5	17.4
Courts and others	2.2	0.7	0.4	3.3
Totals	**$68.0**	$95.7	$58.9	**$222.6**

- ☑ Proposed GO bond level for the coming decade is slightly below the amount of GO bonds approved by the voters over the last decade.

- ☑ About one-half of proposed funding related to transportation/air quality.

- ☑ About 43 percent of the funding would be provided from existing resources such as state and federal gas tax revenues.

- ☑ One of the larger new sources of funding for the plan, is $9 billion for transportation derived from extended or new local transportation sales tax measures. The 14 counties with pending measures for 2006 are highlighted on the next page.

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Governor's Strategic Growth Plan: Local Transportation Sales Taxes

Counties With Pending Sales Tax Measures

County	2006 Ballot	Duration (In Years)	Amount
Fresno	November	20	½ cent
Kern	November	20	½ cent
Madera	November	20	½ cent
Merced	June	30	½ cent
Monterey	June	14	½ cent
Napa	June	30	½ cent
Orange	November	30	½ cent
Placer	November	30	½ cent
San Joaquin	November	30	½ cent
Santa Barbara	November	30	½ cent
Santa Barbara	November	30	¼ cent
Santa Clara	November	30	½ cent
Solano	June	30	½ cent
Stanislaus	November	30	½ cent

☑ The following 17 counties have local transportation sales tax measures in effect:

Counties With Sales Tax Measures in Effect

County	Year Adopted	Expiration Year
Alameda	2000	2022
Contra Costa	2004	2034
Fresno	1986	2007
Imperial	1989	2009
Los Angeles	1980/1990	Permanent
Marin	2004	2025
Orange	1990	2011
Riverside	2002	2039
Sacramento	2004	2039
San Bernardino	2004	2040
San Diego	2004	2048
San Francisco	2003	2033
San Joaquin	1990	2011
San Mateo	2004	2034
Santa Barbara	1989	2009
Santa Clara	2000	2036
Sonoma	2004	2025

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Governor's Strategic Growth Plan: Transportation/Air Quality Proposal

General Obligation Bonds (In Millions)

	2006 Bond Act	2008 Bond Act
Performance Improvement Projects	$1,700	$3,600
SHOPP Projects	1,300	200
Corridor Mobility Projects	300	—
Intelligent Transportation Systems	200	—
Intercity Rail Projects	400	100
Bicycle and Pedestrian Facilities	100	100
Port Mitigation	1,000	—
Trade/Goods Movement	1,000	2,000
Totals	**$6,000**	**$6,000**

Transportation Revenue Bond Act of 2012—$14 billion backed by existing state gas tax and weight fees—not exceeding $1.025 billion each year.

- ☑ Focus of bond funds mainly on *interregional* system, rather than regional priorities.
  - ■ Exempts allocation of bond funds from statutory interregional/regional (25/75) split and county shares formula.
- ☑ Planning process is top down, rather than bottom up (which is existing law).
- ☑ Authorizes design build.
- ☑ Authorizes public/private partnerships with contracts up to 99 years.

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Legislative Considerations on Transportation Proposal

- ☑ Should not abandon State Transportation Improvement Program planning and funding process.
- ☑ Continuous appropriation authority unwarranted/ accountability needed.
- ☑ Project costs, readiness, and funding mix warrant close scrutiny.
- ☑ Risk for matching bond funds—4-to-1 matching ratio (bonds to private investment) for $3 billion of the GO amount.
- ☑ Potential negative impact on highway maintenance—taking up to 25 percent of future gas tax and weight fee revenues "off the top" to pay for debt service potentially leaves insufficient funds for ongoing maintenance and rehabilitation.
- ☑ Transportation has generally been funded on a pay-as-you go basis. Since 1990, three transportation bonds have been adopted—two for passenger rail purposes, and one for seismic retrofit of state highway bridges.

Year	Measure	Amount
1990	Proposition 108—Passenger Rail and Clean Air Bond Act of 1990	$1 billion
	Proposition 116—Clean Air and Transportation Improvement Act	$1.99 billion
1996	Proposition 192—Seismic Retrofit Bond Act of 1996	$2 billion