INFRASTRUCTURE A HOT TOPIC

Infrastructure means the basic building blocks, the public structures and facilities, that support our social structure. Normally, it is not the focus of major debate at the start of an election year, but this year it is at the top of both the Governor's and the Legislature's agendas. The Legislative Analyst's Office (LAO) has issued a report summarizing some of the main considerations on the subject.

The state's capital facilities include everything from colleges to highways, dams to prisons and parks to offices. The state also funds local public infrastructure, usually requiring local matching funds. The LAO says that "most of the state's infrastructure investment was made in the 1950s through the 1970s, particularly in such areas as higher education, transportation, and water management."

Spending dropped sharply in the 1970s, before resuming a steady rise after 1981. It has not, however, kept pace with our population increase or the needs of an expanding economy, nor has it adequately provided for the maintenance that might have kept facilities from deteriorating. For example, the Central Valley's levee system needs more than $1 billion just to rehabilitate aging levees, and that would not necessarily protect newer urban development in areas subject to flooding.

A 1999 law called for a comprehensive five-year plan for infrastructure to be submitted each January by the Governor. Such plans were produced in 2002 and 2003, but not since then. Now state agencies are updating information and a plan is expected soon. It was foreshadowed in the Governor's State of the State speech and press announcements, which called for multi-billion dollar capital expenditures for transportation, water storage, levees, schools, prisons and air quality. Legislative leaders are working on an $11 billion infrastructure bond measure with a different list of projects.

With any plan, a key question is how it would be funded. The 2003 plan proposed expenditures of $54 billion over five years, about 54 percent from existing state and federal transportation funds, 36 percent from General Obligation (GO) bonds and lease-revenue bonds, and the rest from direct appropriations from the General Fund (GF) and other special funds. Governor Schwarzenegger has listed lease-revenue bonds, a water fee on households and businesses, higher port fees, tolls and other possible revenues as additional sources of funding. Of the Governor' s $223 billion ten-year infrastructure spending proposal, about $101 billion would be from existing sources, $68 billion from new GF-supported bonds, and $53 billion from new funding sources.

Although user fees or taxes such as the gas tax or water fees have been used to pay for some facilities, most infrastructure is financed by bonds and repaid from the state GF. Facilities are expensive to construct, but last a long time and serve generations of taxpayers. Interest costs to repay the bonds can make the total cost nearly double the bond proceeds, but adjusting for inflation over the usual 30 year repayment span makes the price tag much less, e.g., $1.25 million for each $1 million borrowed.

California now has about $53 billion of GF debt outstanding, $42 billion for infrastructure and another $10.4 billion for the deficit financing bonds. We also have about $30 billion of bonds authorized but not yet sold, although some of that is committed to projects not yet ready to build. Debt service costs will be about $5.8 billion in 2006-07. The state's level of debt service is still within what is considered an acceptable range, but could become problematic if not carefully managed. California's credit rating has improved but is still the lowest of any state rated by the major credit rating services, and this increases our cost of borrowing. The major reason given is not our total outstanding debt, but the state's continuing inability to deal with its structural deficit.

Infrastructure spending is an investment in California's future, and we have many areas of critical needs. The question, however, always comes down to how to weigh those needs against other needs that are competing for the public's dollars.