

Understanding Infrastructure Financing for California

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Summary

Over the last decade, many observers have questioned whether or not California's future is endangered by a lack of infrastructure spending. Answering this question requires a basic understanding of current levels of infrastructure financing and spending patterns. It is also important to consider how these levels and patterns have changed over time and how they compare to those in the rest of the country.

California spending on infrastructure was \$931 per capita in 2002, about the same level of spending as the rest of the country. This figure reflects a recent increase in capital expenditures that now resembles the levels of the 1950s and 1960s, the heyday of California public projects. However, our current spending priorities differ from those of other states. In particular, more of our capital spending is used for water supply, natural resources, and community development projects, and a smaller portion is dedicated to highway and road projects. Until recently, California was also spending substantially less on education facilities, but from 1997 to 2002, California increased such spending 70 percent in real per capita terms. This money may provide less than it used to, largely because the costs of building have also increased.

Overall, local governments in California provide more infrastructure than their counterparts in the nation as a whole. However, this does not mean that the money is raised locally. Proposition 13, passed in 1978, hindered local government's ability to raise money through the property tax, and local governments receive a substantial amount of pass-through money from the federal and state government. Yet local governments have also found new ways to raise capital funds, including optional sales taxes for transportation (passed at the county level) and an increased reliance on local bonds for school facilities.

State revenue sources for infrastructure projects have also changed over time. Currently, very little general fund revenue is used directly for infrastructure projects. This is in part due to the expanded use of the general fund to pay for education operating expenditures. Instead, state capital projects are largely financed with general obligation (GO) and revenue bonds. In 2002-2003, bond funds made up over three-quarters of state capital outlay sources, a majority of which was used to finance school facilities. However, the ability to pass large bonds to finance projects has been severely curtailed by an estimated debt service ratio of around 7 percent for the next five years. A prudent debt ratio—general fund debt payments divided by general fund revenues—is usually thought to be 6 percent or less. This increased debt service level is partly due to the passage of recent large GO bonds for education, resources, and housing. Additionally, the state refinanced much of its outstanding debt to avoid current payment obligations, and voters authorized \$15 billion for the Economic Recovery Bond to pay off short-term debt to balance the state budget.

Voter support for state and local bonds has greatly increased facility funding on schools. Since 1998, the state has passed over \$28 billion in GO bonds to finance K-12 school construction and modernization. The state also revamped its distribution system in 2000, creating a waiting list of projects for school districts that applied after a given bond's funds were allocated. In addition, the state has earmarked a portion of these funds for districts with overcrowded

schools. These changes have made it easier for large urban school districts to qualify for state matching funds. In addition, voters approved Proposition 39 in 2000, a measure that lowered the voter threshold for passing local school bonds from two-thirds to 55 percent. Thus far, school districts have approved over \$20 billion in new funds, about half of which would not have been approved if the two-thirds supermajority were required. Yet some concerns remain about the distribution of these funds and whether or not they are going to the districts with the most urgent needs.

Capital expenditures for higher education have also increased dramatically. Over the last four years, almost \$4 billion of state general obligation bonds have been approved. In addition, UC and CSU have attracted private funds for capital projects. Following the passage of Proposition 39, community college districts also approved over \$9 billion in local bonds. However, capital spending makes up only 9 percent of higher education costs, and recent state budget cuts have affected operating budgets dramatically, resulting in higher student fees. Even so, California public colleges remain some of the most affordable in the country, and the fee hikes partially reflect the fact that fees had been flat for eight years prior to 2003.

In California, water infrastructure has historically been built through large-scale federal and state programs financed largely with user fees. Environmental sustainability and habitat restoration have received increasing emphasis and bond funding, but affordable water for agriculture and a growing population are still top priorities. Collaborative arrangements like CALFED, which bring an array of concerned parties to the table, seek on-going water supply solutions by following a "beneficiary pays" principle. Growing concerns, however, include the ability of local governments to ensure high-quality water, manage storm water, and avoid waterway pollution. Although federal funds historically have been used to provide clean water, the ultimate responsibility for this may rest with local governments who, given the increasing requirement for voter approval for general fees and assessments, may be left responsible for costly cleanups with no clear source of revenue.

California spending for new transportation projects has declined relative to previous levels and to those in the rest of the country. The traditional sources of revenue, the federal and state gasoline taxes, are not indexed to inflation or the cost of gasoline and have eroded over time. Transportation funding has relied increasingly on sales tax revenues, especially at the county level. Because the tax is levied on all residents and on all goods, this arrangement weakens the link between those who pay for transportation and those who use it. These taxes now face an increased voter approval requirement for passage and renewal. In addition, increasing shares of transportation revenues are going to maintenance and mass transit projects. In November 2002, voters passed Proposition 42, which earmarks the sales tax on gasoline for transportation projects, but recent funding cuts and borrowing from transportation funds have curtailed infrastructure projects. Although transportation funding has fallen in recent years, funding mechanisms that return to a user-based approach, such as gas tax increases and toll collection, could be used to pay for new roads.

Going forward, it will be important for Californians to decide which programs are worth funding and how to finance them. These challenges are heightened by two major considerations. First, local governments are increasingly responsible for capital projects, and coordination efforts will become more complicated. Second, as voters continue to make policy

at the ballot box, it will become increasingly important for them to understand how their decisions affect budget trade-offs related to infrastructure funding and other spending priorities.

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Paying for California's Infrastructure

As a first step toward understanding California's infrastructure needs over the next two decades, this paper examines how California's state and local governments pay for projects and services. It also examines spending levels and priorities now and how they compare to those in earlier periods and in the rest of the country. Finally, it summarizes recent changes in infrastructure financing generally and in four specific sectors — K-12 education, higher education, water supply and quality, and transportation — and how California's decisions have been affected by the ongoing state budget crisis.

Infrastructure Financing Methods

There are three basic ways to pay for infrastructure: pay-as-you-go, leasing and private provision, and borrowing. Under pay-as-you-go financing, the government pays for a project out of current revenues. No borrowing occurs, and no interest is paid. This approach limits spending to cash on hand and therefore renders many large projects infeasible. Currently, California uses pay-as-you-go funding principally from federal subventions and transfers, which are distributed on a revenue-sharing basis.

Another way to provide infrastructure is for the government to contract with the private sector. Under this approach, private firms may provide services directly to the general public, such as with the provision of waste disposal services; or the government can lease public property to private companies, allow them to pay for improvements, and then receive the improved property at the end of the lease agreement. Airport parking lots, for example, are often financed this way.

Much of California's infrastructure financing is based on borrowing. By issuing bonds and paying them off over 20 or 30 years, governments can undertake large projects that could not be paid for out of current revenues. Interest payments on these bonds can double the nominal cost of a project, but the cost in real dollars is lower. For large capital projects, borrowing has the added advantage of matching the long-term costs of such projects to their long-term benefits. In effect, the various generations that will benefit from an infrastructure project contribute to its financing.

Infrastructure borrowing is done with general obligation (GO) or revenue bonds. When the state or local government issues GO bonds, it pledges to use its general revenues to pay back the interest and principal, and this debt is backed by the full faith and credit of the issuing government. Revenue bonds, in contrast, are paid back with a revenue stream generated from the infrastructure project itself—for example, tolls generated from a toll road or water fees for a pipeline project—or with special assessments for specific projects. The interest rate for GO bonds depends on the economic and fiscal health of the issuing government; for revenue bonds, rates reflect the expected profitability of the project. At the state level, GO bonds require a simple majority vote; local GO bonds generally require approval from a supermajority in that jurisdiction, with vote requirements varying by the use of the bond revenue.

GO bonds can be separated into two types: self-liquidating and nonself-liquidating. Self-liquidating bonds are backed by project-generated revenue streams (such as mortgages for veterans' housing) and are generally not included when calculating debt-service ratios. Nonself-liquidating bonds are paid back with general fund revenues (Table 1). We have included the Economic Recovery Bond, which was passed in March 2004 and allows the government to borrow up to \$15 billion, in the category of nonself-liquidating debt even though it will be repaid with dedicated sales tax revenues because the services these revenues would have otherwise provided must now be funded with other revenues.¹ In addition, the Economic Recovery Bond will be included in estimating California's future debt load, and the state is responsible for repayment from the general fund if the dedicated sales tax revenues are not adequate.

Table 1
State Bond Types, Typical Uses, and Outstanding Amounts
($\$$ billions)

Types of bonds	Uses	State pays debt service	Voter approval required	Amount outstanding 12/97	Amount outstanding 7/04
General obligation (nonself-liquidating)	Education facilities, seismic retrofit, parks, water projects, Economic Recovery Bond	Y	Y	\$14.9	\$43.9
General obligation (self-liquidating)	Veterans' housing, 1959 California water debt	N	Y	3.8	2.2
Revenue bonds	State Water Project additions, college dorms, non-public projects	N	N	22.2	10.9
Lease-payback revenue bonds	Prisons, college facilities, state office buildings	Y	N	6.4	7.3

SOURCES: Legislative Analyst's Office (1998) and California State Treasurer (2004).

Revenue bonds are paid for with specific funds and are not backed by the full faith and credit of the state; thus they do not require voter approval. Lease-payback revenue bonds, however, are a subset of revenue bonds that mirror a lease-financing agreement. The debt is used to construct a government-owned facility, and the debt repayment is seen as equivalent to what the government would have needed to pay in rental costs for the space if they had leased it from the private sector. The bond costs are paid for by general fund revenue. These bonds do

¹ This categorization of the Economic Recovery Bond is open for interpretation. For instance the State Treasurer's Office classifies the bond as self-liquidating, since it is not repaid from the general fund.

not require voter approval because the courts have ruled that the lease revenue mechanism does not create constitutional debt but is equivalent to a rental obligation. However, the payments are included by rating agencies in the calculation of California's debt ratio.

State general obligation debt is mainly repaid with general fund revenues from existing tax sources. Because this repayment is not explicitly linked to higher taxes, voters are not always aware that new projects will lead to either new taxes or spending cuts in other parts of the budget. As the state becomes more reliant on debt financing, maintaining future spending on operations may be threatened because of the need to pay off the existing debt burden.

Local Financing

Local governments also finance infrastructure through bonds and dedicated revenue streams. However, when local governments issue general obligation bonds they are usually repaid with voter-approved property tax increases. Local revenue bonds – used extensively for water and sewer projects – are repaid with revenues from services, local sales and parcel taxes, developer and user fees, and benefit assessments. These myriad of revenue sources are also used to provide some spending directly on infrastructure projects, most notably local sales tax revenues for transportation projects. Local governments also receive state and federal money that is passed through to local governments for local projects in a variety of sectors.

Over the last generation, statewide ballot initiatives have limited local governments' ability to raise tax revenue.² Passed in 1978, Proposition 13 capped the property tax rate at 1 percent, limited changes in property value assessments to when property is sold, and required a two-thirds majority for the passage of special taxes. In 1986 voters approved a statutory measure that required voter approval (a simple majority) for passing other general taxes. Some counties have also passed sales taxes for transportation projects. Initially, these sales taxes required approval by a majority of voters and were considered general taxes, but the courts have decided that such taxes are special taxes and therefore now require a two-thirds supermajority for passage or renewal.

User fees and special assessments are also used to provide infrastructure for local governments. These fees may vary with consumption (as with fees for electricity or water) or may be assessed as a flat monthly charge. User fees do not require voter approval if they do not exceed the "reasonable cost of providing service." User fees that exceed a reasonable cost require the same level of voter approval as a special assessment, which local governments can levy for public-benefit-related services like flood control and streetlights. Following the passage of Proposition 218 in 1996, special assessments require a two-thirds majority of voters or a simple majority of property owners for passage. There are ongoing debates and court battles over the differences between user fees, special assessments, special taxes, and general taxes, as well as what is a "reasonable" cost for a service, but it is clear that local governments increasingly face the need for public approval to carry out new or ongoing projects.

The one area in which raising new funds has become easier for local governments in recent years is K-14 education. In November 2000, voters approved Proposition 39, which

² For more information on these statewide limitations on local revenues see Rueben and Cerdán (2003).

decreased the supermajority requirement for local school bond measures from two-thirds to 55 percent.³ Although there is talk of statewide initiatives to lower the passage rate for other types of local GO bond measures, none has been approved so far.

Finally, local governments have also relied on development fees for infrastructure financing. The local government can negotiate these fees while approving new developments, which are asked to bear the burden for new services. However, this approach is more difficult to use if local governments wish to build new infrastructure in existing areas.

Infrastructure Spending Patterns

Infrastructure spending in California has varied over time as the result of changes in public attitudes, revenue availability, and population demands.⁴ The Pat Brown era (1959-1967) is often seen as a boom period of infrastructure building and was characterized by increased federal spending, bipartisan support for infrastructure, and increased tax revenues. Since that time, the political support for infrastructure provision has changed. Beginning in the late 1960s, per capita state and local capital outlays declined in California, reaching a low point following the passage of Proposition 13 in 1978. Although this decline was more dramatic in California, it was similar to capital outlay expenditure patterns found in the United States as a whole (Figure 1).⁵

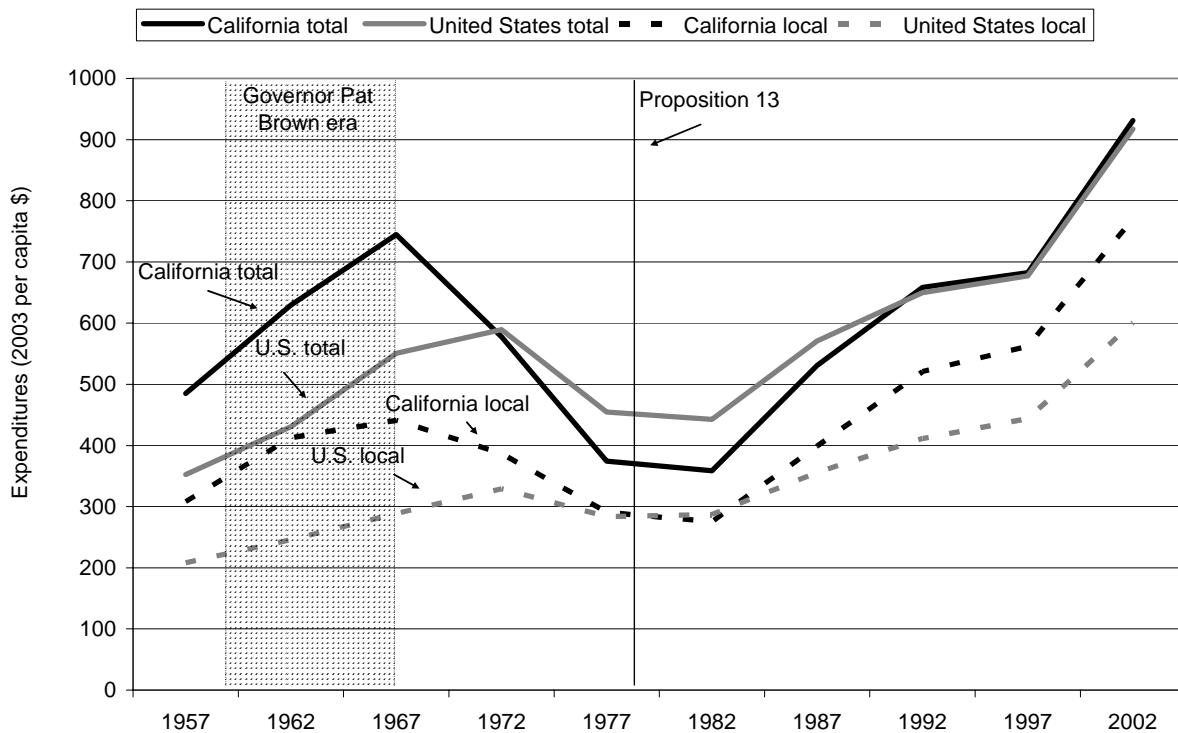
The drop in infrastructure spending predated Proposition 13 and reflected temporary declines in both federal capital funds and school capital spending because of a decline in the size of the school-age population. Per capita capital expenditures began increasing again in 1982, with dramatic increases in the last few years. In 2002, California spent \$931 per person on capital compared to \$917 in the country as a whole. This is over one-third more than the amount spent in 1997 and one-quarter more on a real per capita basis than was spent in 1967—the former high point in California infrastructure spending. California has also always spent more of its capital funds locally than the rest of the country. In 2002, local governments carried out 83 percent of capital expenditures in California compared to 65 percent in the country as a whole. There has been a shift in where this money is coming from, with California's state government funding an increasing share of local projects.

³ This lower majority requirement comes with additional restrictions on the bond funds including an enumeration of projects that will be funded and the presence of a voter oversight committee. In addition, the lower requirement is available only if the bond is proposed during an election where a federal, state, county, or city election is also occurring.

⁴ To examine infrastructure spending over time, we use U.S. Census Bureau, Governments Division data available from 1957-2002 in five-year increments. Because of changes in state Controller reporting methodology in 2002, there is missing information in the Census numbers on capital expenditures for nontransportation special districts. We have therefore augmented the Census numbers with information from the Controller's office about changes in net assets for special districts. Appendix Tables A1, A2, and A3 provide more information from the U.S. Census Bureau, Governments Division on the level and composition of spending in California and the United States for capital and non-capital expenditures.

⁵ Unless otherwise noted, all dollar amounts are given in 2003 dollars.

Figure 1
Per Capita State and Local Capital Outlay Expenditures, 1957-2002

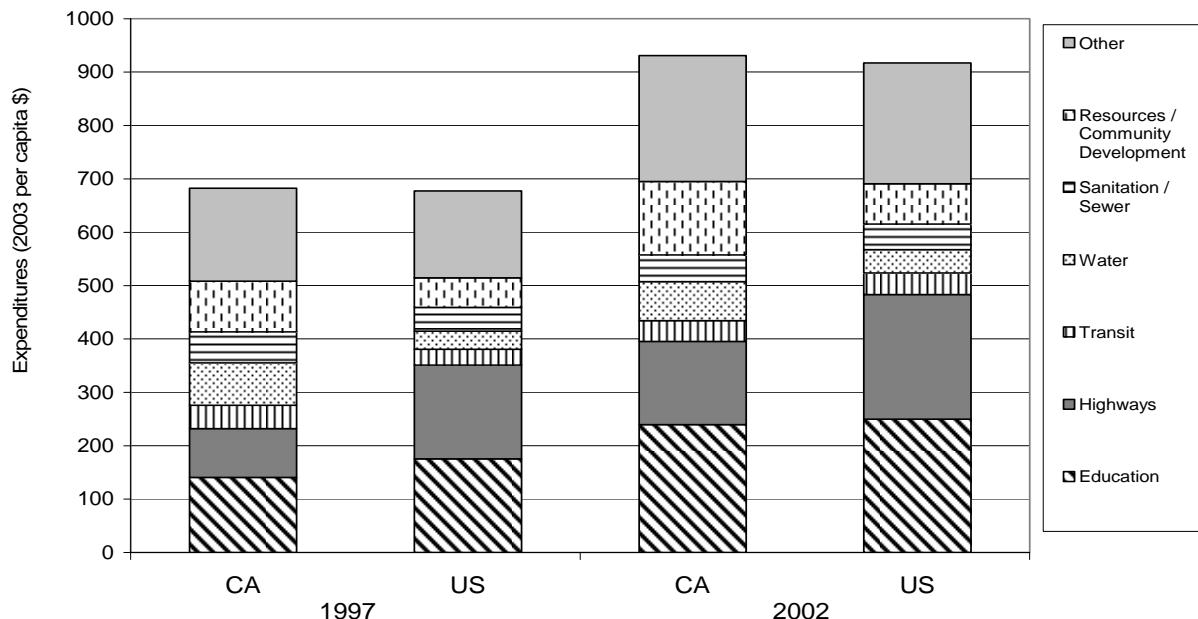


SOURCES: U.S. Census Bureau, Governments Division (1957-2002); California State Controller (2001-2002).

Although California's overall per capita spending levels now approximate those in the rest of the country, how the state spends that money has diverged from the national pattern (Figure 2). In 1997, California spent significantly more than the United States as a whole on resources and community development (\$95 per capita versus \$56) and water (\$79 versus \$34)⁶ and less on highways and roads (\$92 versus \$176) and educational facilities (\$140 versus \$175). By 2002, California was still spending less on highways and roads (\$156 versus \$233) and more on water and resources (including levee, irrigation, and drainage special districts). However, California had almost caught up with the nation as a whole for spending on educational facilities (\$239 versus \$250).

⁶ Although California is currently and historically has spent more on water projects than the nation as a whole, California water project spending is on par with that of other arid Western states.

Figure 2
California versus U.S. State and Local Capital Outlay, 1997 and 2002



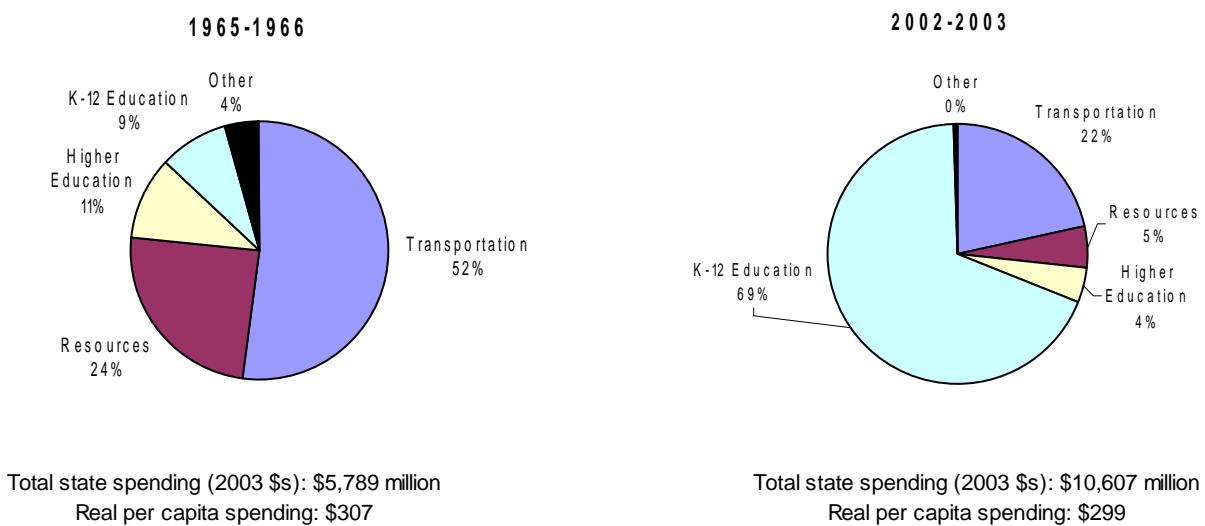
SOURCES: U.S. Census Bureau, Governments Division (1997, 2002); California State Controller (2001-2002).

Spending from State Budget Funds

The spending priorities reflected in California's state budget have also changed over time. In 1965-1966, transportation infrastructure took the largest share of the state's capital expenditures, and spending on resources (mainly water) was the next largest slice. K-12 capital constituted only 9 percent of state spending but now makes up 69 percent of capital outlay (Figure 3), a result of the shifts in state and local responsibilities occurring after Proposition 13.⁷

⁷ For more information on the level and composition of state infrastructure spending from state general and special funds see Appendix Table A4.

Figure 3
State Capital Outlay Expenditures, 1965-1966 and 2002-2003



SOURCE: California Department of Finance (1967-1968 and 2004-2005).

Likewise, the state's capital funding sources have changed significantly since the early 1960s. Most notably, the state has moved away from pay-as-you-go financing, with a corresponding increase in reliance on bonds (Table 2). The amount of direct payments from the general fund for infrastructure payments has plummeted from the level found in the early 1960s, with general fund revenues now mainly being used to pay back debt.⁸ Special funds are usually limited to specific programs, with the State Highway Account being the largest. Federal funds make up a significant portion of the state's pay-as-you-go infrastructure funds (\$1.5 billion in 2002-2003, about 45 percent of capital outlay revenue excluding K-12 local assistance) and provide money to local governments to pay for highways, mass transit, flood control, and veterans' homes.⁹

⁸ It is important to note that the shift in how California funds infrastructure makes comparisons in how much general fund revenues are being spent on infrastructure projects somewhat misleading. In the ad campaigns favoring Proposition 53 (on the October 2003 ballot), proponents highlighted this decline in general fund spending without recognizing the larger role of special funds and shift to bonds to pay for new investment.

⁹ California Budget Project (1999); Legislative Analyst's Office (February 2004); California Department of Finance (2004-2005).

Table 2
State Revenue Sources for Infrastructure Financing
(2003 \$ millions)

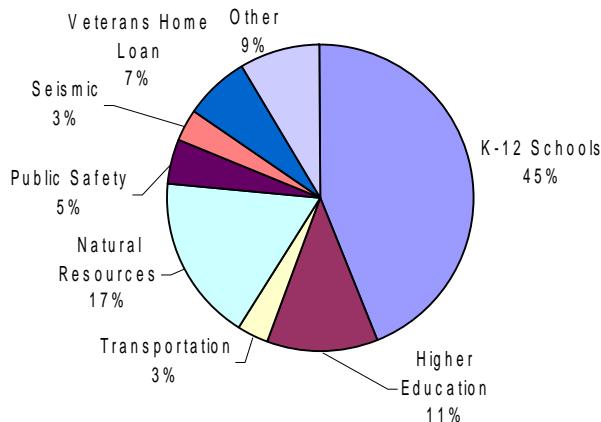
	1960-1961	1965-1966	2002-2003
General Fund	13.5%	1.8%	0.9%
Special Funds	44.2%	27.9%	7.5%
Bond Funds	15.8%	42.2%	77.5%
Federal Funds	26.6%	28.0%	14.1%
Total real \$ amount	\$4,104	\$5,789	\$10,607
Amount per capita	\$259	\$307	\$299

NOTE: Includes K-12 local assistance for facilities.

SOURCES: California Department of Finance (1962-63, 1967-68, and 2004-05).

Since 1972 California voters have approved \$82.6 billion (nominal \$) in GO bonds for various purposes (Figure 4). About 45 percent of this amount has been used to finance K-12 school construction. The next largest categories are natural resources (\$15 billion) and higher education (\$10 billion).

Figure 4
Distribution of State General Obligation Bonds for Infrastructure, 1972-2004



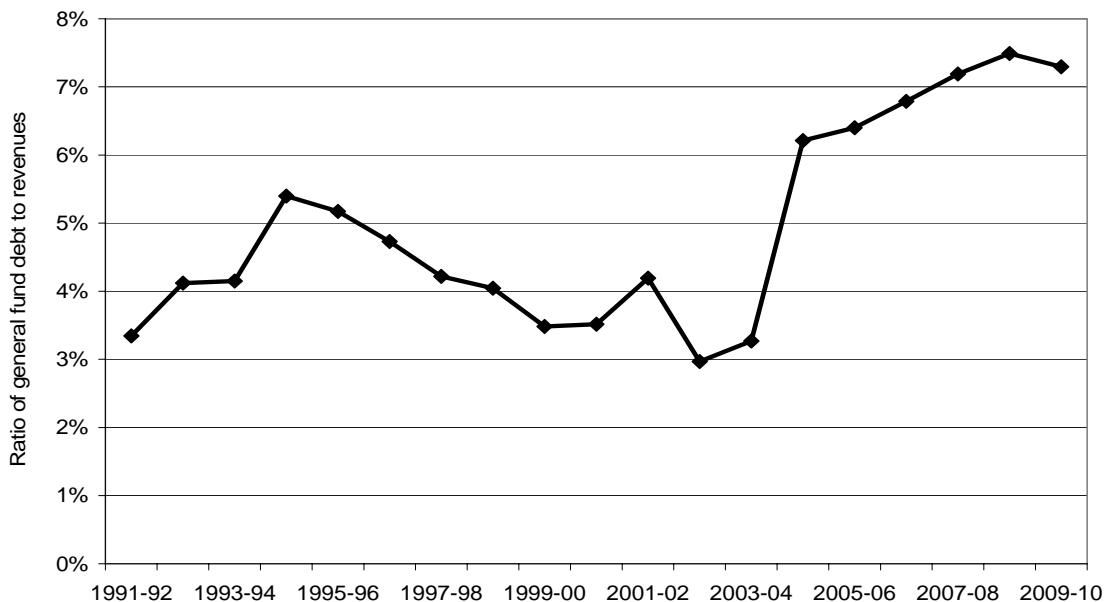
NOTE: The figure does not include the Economic Recovery Bond.

SOURCE: California Department of Finance, (2004-2005); updated by authors.

The increase in reliance on bond funding has implications for the state's debt service ratio – the portion of annual general fund revenues that are devoted to principal and interest

payments on debt. This ratio was at 3 percent in 2002-2003, lower than usual because of the recent refinancing of outstanding debt in response to the state budget shortfalls. In March 2004, Californian's passed an additional \$27.3 billion of general obligation bonds; half of this will finance school infrastructure, and the other half will help solve the state's current budget crisis. In November 2004, voters approved an additional \$3 billion initiative to fund stem cell research and \$750 million for children's hospitals. The result will be increasing debt service ratios, rising above 7 percent in 2007-2008 and remaining at that level until after 2010 (Figure 5). A reasonable debt service ratio is 6 percent or less (Legislative Analyst's Office, February 2004). This suggests that California's capacity for new bonds is limited in the near term, since more money must be earmarked to repay debt in the next few years.

Figure 5
California's Debt Service Ratio, 1991-1992 to 2009-2010



NOTE: Includes general obligation bonds passed in 2004, including payments on the Economic Recovery Bond.

SOURCE: Legislative Analyst's Office (December 2004).

Federal Transfers for Infrastructure

While we are unable to isolate federal transfers to California for capital and non-capital projects, it is instructive to examine how overall federal spending on state and local capital

projects has changed over time.¹⁰ Currently federal transfers for state and local capital projects have surpassed peak levels found in the late 1970s. Federal capital funds dipped in the 1980s, but this was a limited decline in federal funds that reversed in the late 1990s (Table 3).

Table 3
Federal Grants for Major Physical Capital Investment

	1960	1965	1970	1975	1980	1985	1990	1995	2000
Real per capita capital grants	\$88.0	\$120.7	\$139.2	\$129.1	\$167.6	\$149.8	\$136.6	\$162.8	\$176.2
Percent capital grants for:									
Highways	88%	80%	61%	42%	40%	51%	51%	49%	51%
Urban mass transport	0%	0%	2%	6%	9%	10%	12%	9%	11%
Airports	2%	1%	1%	3%	3%	3%	4%	5%	3%
Community development	3%	12%	23%	23%	26%	20%	14%	13%	12%
Natural resources and environment	3%	3%	5%	21%	22%	14%	12%	9%	7%
Housing assistance	0%	0%	0%	0%	0%	0%	5%	15%	15%
Other non-defense	4%	3%	8%	5%	1%	1%	1%	1%	0%
Defense	0%	0%	0%	0%	0%	0%	1%	0%	0%
Real per capita capital grants	\$88.0	\$120.7	\$139.2	\$129.1	\$167.6	\$149.8	\$136.6	\$162.8	\$176.2
Real per capita total grants to state and local governments	\$186.0	\$264.1	\$474.7	\$590.6	\$678.6	\$636.9	\$679.8	\$925.4	\$1031.0
Percent of total federal grants allocated for capital	47%	46%	29%	22%	25%	24%	20%	18%	17%

SOURCE: Office of Management and Budget, (2004).

However federal money now funds different types of capital. In the 1950s and 1960s, the bulk of federal capital transfers went to highways. Beginning in the 1970s funds were increasingly used for other projects including mass transit, community and regional development projects, and natural resource and environment projects, with highway and road projects receiving 40 percent of funds in 1980, down from a high of nearly 90 percent of capital transfers. The share of money for highways increased during the 1980s, and highway and road projects currently make up about half of all federal transfers for capital. Recently funds for housing assistance have increased as large federal housing projects have been replaced with different options in subsidized housing. The other major change is a reallocation in the importance of capital grants in federal spending priorities. Federal grants today largely focus on redistributive programs and payments to individuals, including Medicaid and welfare programs. Thus the federal government is still involved in infrastructure projects, but its focus has shifted to fund a wider array of projects over the last forty years.

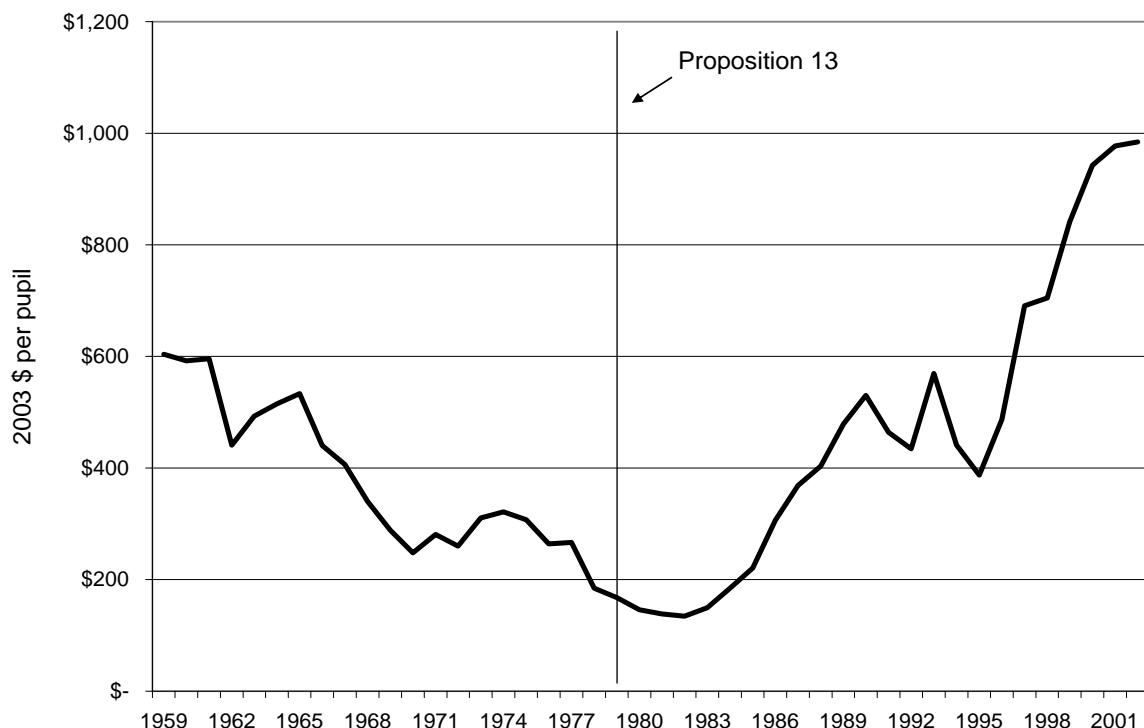
¹⁰ Overall California received \$34 billion from federal formula grants in 2001 or 12 percent of all federal grants, a share proportional to California's share of the U.S. population, but much of this money was for non-capital expenditures. For more information on California's share of overall federal funds see Ransdell (2002).

K-12 Education

To flesh out our picture of infrastructure spending, we turn now to specific sectors, beginning with K-12 education. Most education spending is for operating expenditures and is done at the local level. In 1999-2000, local school districts spent \$5.0 billion on capital outlay and \$39.8 billion on operating expenditures.¹¹

Per student outlays on school facilities have been anything but steady over the last 30 years. Even before the passage of Proposition 13, school capital financing was falling (Figure 6). Per pupil capital spending began to increase in the mid-1990s, well before the lower supermajority requirement for local school bond measures was passed. Between 1999 and 2002, local governments increased per pupil capital spending by over \$140. This additional level of spending reflects the growing support for schools generally and school facilities specifically.

Figure 6
California Per Pupil School Infrastructure Spending, 1959-2002



SOURCE: California Department of Education (1959-2002).

¹¹ We rely on California local government controller data and state budget information to calculate the annual spending levels in each sector. For more information on expenditure sources for our highlighted sectors see Appendix Table A5.

By 1986, K-12 capital finance relied more or less equally on state bond money, local bonds, and developer and other local fees.¹² This pattern continued into the 1990s, with local districts paying for just over two-thirds of capital outlay costs for K-12 education through a combination of local general obligation bonds (32%), developer fees (11%), and other sources (27%) (Brunner and Rueben, 2001), and with state GO bonds covering the remaining third.

During the recent past, voters have been willing to pass large state GO bonds to fund K-12 education (Table 4).¹³ Prior to recent reforms, however, this funding system suffered from some serious weaknesses, with school districts uncertain when funding would be available and how much to expect. Although the State Allocation Board's decision-making process has changed frequently, it historically allocated bond money on a first-come, first-served basis on a bond-by-bond basis. Moreover, it required matching funds from localities.¹⁴ Until 2000, school districts needed to reapply each time a bond was passed. This money was usually depleted entirely before new bonds were authorized, creating a "hill and valley" revenue stream, which impaired districts capacity to plan and raise local supplemental funds.

Table 4
State K-12 Education General Obligation Bonds, 1974-2004
(\$ millions)

Years	No. proposed	No. passed	Amount proposed	Amount passed	Real amount proposed (2003 \$)	Real amount passed (2003 \$)
1974-80	3	1	700	150	1,601	419
1981-85	2	2	950	950	1,423	1,423
1986-90	5	5	4,000	4,000	5,253	5,253
1991-95	3	2	3,800	2,800	4,524	3,400
1996-00	2	2	8,725	8,725	9,176	9,176
2001-04	2	2	21,400	21,400	21,573	21,573
Total	17	14	\$ 39,575	\$ 38,025	\$ 43,551	\$ 41,244

Moreover, the finance system led to considerable inequities, with many California children schooled in inadequate facilities. In 2001, one in three children attended schools that were overcrowded or in need of modernization, with estimated costs to correct these problems at \$30 billion (Legislative Analyst's Office, 2001). Following litigation surrounding the distribution of Proposition 1A funds (passed in 1998), the state revamped its formula for distributing bond funds, specifically allocating a portion of new bonds for school districts with critically overcrowded schools and maintaining a list of projects to be funded from one bond

¹² Following the passage of Proposition 13 in 1978, it was unclear how school districts would locally finance new facilities. Several reforms occurring in the mid 1980s reestablished local funding sources. For more information see Brunner and Rueben (2001).

¹³ Some state bond measures combined financing for K-12 and higher education. In this section, however, we list the funds solely for K-12 districts. We will discuss higher education financing in the next section.

¹⁴ Hardship funds were allowed for school districts that could show an inability to raise local funds. For more information on the details surrounding specific limits on school facility finances see Brunner and Rueben (2001).

pool to the next. The new formula also limited the state match to a certain amount per pupil for each type of district.

After these changes were put into place, voters passed Proposition 47 in 2002 and Proposition 55 in 2004, which authorized \$21.4 billion in new state bond funds for K-12 facilities. These funds included money to fund existing approved projects off the Proposition 1A waitlist (\$4.8 billion), projects in critically overcrowded schools (\$4.1 billion), modernization projects in existing schools (\$3.7 billion), and new construction to accommodate projected growth in enrollments (\$8.8 billion). Although there is a per pupil cap on state contributions, most money is still distributed on a matching basis, so school districts with higher property values are able to raise more local funds, thereby possibly becoming eligible for more state money.¹⁵ However, hardship funds still assist districts that are unable to raise their local match.

Concerns about the ability to raise local revenues have been lessened in the last few years. Since the passage of Proposition 39, which lowered the vote requirement for the passage of school bonds in local elections from two-thirds to 55 percent, school districts passed more than 250 bond measures for more than \$20 billion. Slightly less than half of these measures would not have passed without the lower supermajority requirement (Table 5).

Table 5
Local K-12 School Facility Bonds since Proposition 39
(\$ billions)

	Number	Amount (\$)
Passed	256	20.3
Not passed	50	1.7
Proposed	306	22.1
Passed with less than 2/3	119	9.9

In the aftermath of Proposition 39, the state may wish to examine its role in financing school facilities. The Legislative Analyst's Office has suggested allocating state education capital funds on an ongoing per pupil basis and moving away from a reliance on bond revenues, which would address equity concerns and provide a predictable facility revenue stream (2001). Alternatively, state revenues could be allocated based on a local match that takes into account the fact that the same tax rate raises different amounts of revenues across different districts (because of differences in assessed property values across different districts). The state could equalize this system by using state money to top off the revenues raised by a given local property tax increase to equalize levels across the state. This would give lower-wealth districts a higher state match rate for new construction programs.

Although the increased level of state and local bond funding seems promising for schools, we are allocating much of the next decade's school infrastructure funds today. In particular, if there are future unexpected demographic shifts, some growing districts may find that they are unable to provide adequate facilities once the current funds have been spent. The increased surge in funds has also had at least one unintended consequence: The costs of

¹⁵ There is a limit on the level to which school districts can raise property tax rates, so districts with lower property values may be constrained in how much state funding they will be able to receive.

building schools have increased dramatically, with the demand for construction exceeding the supply of school construction firms. Therefore, higher costs may produce fewer classrooms than originally anticipated. This pattern might have been avoided if money had been allocated on a more regular basis.

Higher Education

A mix of federal, state, and local district sources finance the University of California (UC), California State University (CSU), and California community college (CCC) capital outlays. State funds for capital and operating expenditures totaled about \$10.7 billion in 1999-2000 and came from education bonds, earmarked special funds, and the state general fund. Student fees and private funds now augment state funds, adding \$1.4 billion for capital and \$8.2 billion in operating expenditures in 1999-2000. Similar to patterns found in K-12 education, higher education spending is predominantly for operating expenses. The ratio of capital to operating expenses is 9 percent.¹⁶ As with overall capital spending, capital outlays for higher education declined rapidly during the 1970s, especially after the passage of Proposition 13, but increased during the late 1980s and 1990s. U.S. Census Bureau data for higher education capital outlay show a real per student spending peak of \$1,652 in 1967 and a trough of \$592 in 1982. By 2002, California was spending \$767 per full-time student.

Before Proposition 13, local community college districts funded their own building programs through local bonds and property taxes with some matching funds from the state. Roughly 10 to 15 percent of UC and CSU capital funding came from federal sources through the 1963 Higher Education Facilities Act. Tideland oil revenues from state-owned land also financed UC, CSU, and CCC capital outlays. These revenues were deposited in the Capital Outlay Fund for Public Higher Education (COFPHE) and totaled \$964 million (in nominal dollars) between 1965 and 1986—about 19 percent of all higher education capital outlay spending in that period (California Postsecondary Education Commission, 2002).

Following the passage of Proposition 13, community colleges lost the ability to propose new local bond measures, and federal funds for UC and CSU dried up in the 1980s. Also in 1985, oil prices dropped dramatically, decreasing revenue available from the Tideland Oil Fund. The state then shifted to using bond measures to fund higher education infrastructure projects. In 1986, the legislature proposed and voters passed Proposition 56, a bond measure for higher education raising \$400 million. This was the first time state bond funds were used to fund facilities for UC or CSU. State bond measures are now used regularly to fund higher education capital outlays (Table 6). Until 1996, measures for higher education and K-12 capital outlays were proposed separately, but because of stronger voter support for K-12 bonds, propositions are now joint K-University bond acts.

¹⁶ For more information on expenditure sources for higher education see Appendix Table A5.

Table 6
State Higher Education General Obligation Bonds, 1972-2004
(\$ millions)

Date	Proposition #	Amount proposed	Real amount proposed (2003 \$)	Real amount passed (2003 \$)
Nov-72*	1	160	572	Y
Jun-76*	4	150	359	N
Nov-86	56	400	568	Y
Nov-88	78	600	794	Y
Jun-90	121	450	562	Y
Nov-90	143	450	562	N
Jun-92	153	900	1,093	Y
Jun-94	1C	900	1,012	N
Mar-96+	203	975	1,043	Y
Nov-98+	1A	2,500	2,616	Y
Nov-02+	47	1,650	1,675	Y
Mar-04+	55	2,300	2,300	Y
Total		\$ 11,435	\$ 13,157	\$ 11,223

* These bond measures are for community colleges only.

+ These bond measures also include K-12 money.

Before 2000, higher education bond funds had been split into thirds for UC, CSU, and CCC. Proposition 47 (2002) and Proposition 55 (2004), which made nearly \$4 billion available for higher education projects, increased the community college share to 40 percent, with UC and CSU receiving 30 percent each (Table 7).

Table 7
Distribution of Recent State Bond Funds to Higher Education System
(\$ millions)

	Prop 47 (11/02)	Prop 55 (3/04)	Total
Community Colleges	746	920	1,666
CSU	496	690	1,186
UC	408	690	1,098
Total	\$ 1,650	\$ 2,300	\$ 3,950

UC has been fairly successful in securing private money for capital building, raising \$4.6 billion through private and other nonstate funds from 1996-1997 through 2000-2001 (Table 8). Additionally UC can finance new research facilities through bonds backed by future research revenue, a step recently recommended by the Legislative Analyst's Office (June 2004). The CSU system has been less successful in private fundraising, raising only \$258 million from nonstate funds over this same period.

Table 8
State Capital Outlay Revenue for Higher Education, 1996-1997 through 2000-2001
($\$$ millions)

	State General & COFPHE Funds	GO Bonds	Revenue Bonds & Special Funds	Other Nonstate Funds	Total
UC	10.0	981.9	195.9	4,621.8	5,809.6
CSU	35.6	945.9	11.7	258.3	1,251.4
CC		1,004.5	1.5	*	1,006.0
Total	45.6	2,932.4	209.0	4,880.1	\$ 8,067.0

* Community College numbers do not include local district revenues, which are discussed below.

SOURCE: California Postsecondary Education Commission (2002).

Although community colleges have not raised substantial amounts of private money, the passage of Proposition 39 has helped them raise over \$9 billion in local district bonds since 2001 (Table 9). Nearly three-quarters of these measures would not have passed if the two-thirds supermajority had been required.

Table 9
Local Community College Facility Bonds since Proposition 39
($\$$ billions)

	Number	Amount (\$)
Passed	46	9.1
Not passed	5	1.0
Proposed	51	10.0
Passed with less than 2/3	33	6.6

The recent state budget crisis has caused California to re-examine its previous levels of support for higher education. Campuses have had to make reductions in services, increase class sizes and raise student fees. However California tuition and fees are still lower than the average costs faced by students in other states, and community college fees remain among the lowest in the country. While the budget crisis is forcing students to pay more and campuses to cut back, infrastructure for higher education is not as threatened as operating budgets. In addition, California may want to consider adoption of systematic student fee increases to avoid

the swings in tuition rates caused by the current policy of leaving tuition constant until a period of budgetary stress and then raising rates dramatically.

Water Supply and Quality

California water resources are used for agricultural, residential, industrial, environmental, recreational, and other purposes. To accommodate these various uses, California has a vast infrastructure system for water supply, conveyance, and quality control. In 1999-2000, capital spending for water supply and water quality totaled \$4.7 billion, and operating expenses totaled \$9.6 billion. About one-third of this spending is used for sewer systems and wastewater treatment centers.¹⁷

City water agencies and nearly 1,300 local water districts and other entities spend most of this money either to provide water directly or to meet water standards for municipal wastewater discharge. User fees are the largest source of both city and special district funds. In 1997-1998, cities brought in \$4.1 billion in water and sewer service charges, or 80 percent of city water and sewer functional revenues (California State Controller, 1997-98). Water special districts brought in \$4.3 billion in fees, nearly 60 percent of water district total revenues in this year (Legislative Analyst's Office, 2002b). Average yearly water fees in 2003 were \$363, and only 3 percent of communities faced fees greater than 1.5 percent of median household income (Hanak and Barbour, 2005).

Although local water utilities are primarily responsible for delivering water to end users, several state and federal projects established significant conveyance and storage infrastructure during the mid-twentieth century to supply these local utilities. These include the federal Central Valley Project (CVP), the State Water Project (SWP), and the federal Colorado River Project. These projects have authority to levy fees and charges for capital costs. The U.S. Bureau of Reclamation (USBR) constructed the CVP beginning in 1937 and still controls the facilities. The project was financed through federal appropriations and repayments from water users, including agriculture, municipal and industrial users, and power customers. Total construction costs totaled \$3.3 billion in nominal dollars as of 1999 (Dowall and Whittington, 2003). The Colorado River Project, also administered by USBR, allocates water from the Colorado River among the Western states, with California historically receiving a significant share.

The California Department of Water Resources (DWR) runs the SWP, which furnishes a substantial portion of the water supplies for urban Southern California as well as agricultural users in the southern San Joaquin Valley. Construction on these conveyance and storage facilities began in the 1960s, when voters approved a \$1.75 billion general obligation bond (\$8.2 billion in 2003 dollars) to finance initial construction. Water supply contractors became responsible for repayment of this GO bond and passed on these costs to users in the form of fees. Subsequently, revenue bonds have been used to finance additional SWP facilities in Southern California and along the central coast and are also paid off with user fees.

California voters have been asked to approve 15 statewide water-related GO bonds over the last 30 years, and have done so for all but one of these, for a total of \$9.9 billion (Table 10). The vast majority of these bonds have focused on water-quality-related issues, for both urban supply ("drinking water") and wastewater (usually called "clean water") programs. The most

¹⁷ For more information on expenditure sources for water supply and quality see Appendix Table A5.

recent bonds have also focused on ecosystem restoration and grants to local water districts to increase water use efficiency and augment local supplies (Table 11).

Table 10
State Water General Obligation Bonds, 1972-2004
(\$ millions)

Date	Proposition #	Purpose	Amount proposed	Real amount proposed (2003 \$)	Real amount passed (2003 \$)
Jun-74	2	Clean Water	250	698	Y
Jun-76	3	Drinking Water	175	419	Y
Jun-78	2	Clean Water & Conservation	375	753	Y
Nov-84	25	Clean Water	325	473	Y
Nov-84	28	Drinking Water	75	109	Y
Jun-86	44	Water Quality & Conservation	150	213	Y
Nov-86	55	Drinking Water	100	142	Y
Nov-88	81	Drinking Water	75	99	Y
Nov-88	82	Conservation	60	79	Y
Nov-88	83	Clean Water & Reclamation	65	86	Y
Nov-90	148	Water Supply	380	475	N
Nov-96	204	Water Supply	995	1,064	Y
Mar-00	13	Drinking, Clean Water, Watershed & Flood	1,970	2,008	Y
Mar-02	40	Clean Water	300	305	Y
Nov-02	50	Supply, Clean Water, Drinking Water & Wetlands	3,440	3,492	Y
Total			\$ 5,295	\$ 10,416	\$ 9,942

Table 11
Recent Water-Related State General Obligation Bonds
($\$$ millions)

Bond Fund	Prop #	Amount
1996 Safe, Clean, Reliable Water Supply Bond Act	204	\$ 995
CALFED		453
Water Supply		117
Wastewater		235
Bay-Delta Improvement & Flood Control		190
2000 Safe Drinking Water, Clean Water, Watershed Protection, and Flood Protection Act	13	\$ 1970
CALFED		250
Water Supply & Conservation		535
Drinking Water		70
Wastewater		355
Flood Control & Watershed		760
2002 California Clean Water, Clean Air, Safe Neighborhood Parks, and Coastal Protection Act	40	\$ 2600 *
Water Quality & Restoration		300
2002 Water Quality, Supply and Safe Drinking Water Projects Coastal Wetlands Purchase and Protection Bond Act	50	\$ 3440
CALFED		825
Water Supply & Integrated Regional Management		640
Drinking Water (Includes Desalination & Water Security)		585
Wastewater		370
Coastal Protection & Colorado River Management		1020

* The remaining \$2300 of Proposition 40 funded nonwater-related projects.

A large portion of the most recent bonds -- \$1.5 billion -- has been allocated to the CALFED program, a multiagency state and federal effort to restore the Bay Delta fisheries, ensure water and environmental quality, and secure the water supply. Representatives include urban, environmental, agricultural, and other interests. CALFED does not directly control or manage water supply but attempts to coordinate activities of various water actors in the state, including the CVP, SWP, and local agencies. CALFED's long-term financial plan follows a "beneficiary pays" principle, with project benefits and costs as closely correlated as possible to avoid or minimize subsidies. However, to date, the state bond funds have been the primary revenue source, with relatively little money forthcoming from either federal sources or local users. CALFED partners have recently completed a 10-year finance plan that allocates costs among federal, state and local authorities. In October 2004, federal legislation authorized \$395 million from 2005 to 2010 to support the federal share of CALFED expenditures.

Water Quality

The recent state bonds also provide substantial resources to help local agencies improve water quality, a shift from the policy in the 1990s, during which relatively limited state funding was available. In the first decade following the passage of the federal Clean Water Act of 1972, federal grants provided more than 75 percent of the capital costs for upgrading wastewater systems to meet the new water quality standards. This program was then substantially downsized and converted into a Clean Water State Revolving Fund, with 20 percent state matching funds, to provide low-interest loans to wastewater utilities. In 1996, the California Safe Drinking Water State Revolving Fund was established to assist water utilities. California spent \$134.6 million in federal funds for water quality in 1999-2000. Currently Congress is considering bills that would provide additional federal money for local water treatment plant infrastructure, motivated by September 11 security issues and concerns raised by local governments and environmental groups regarding the growing costs of clean water programs.

The State Water Resources Control Board (SWRCB) administers clean water programs, covering wastewater and storm water runoff. The recent passage of Propositions 13, 40, and 50 has greatly increased the state's ability to provide local assistance for clean water projects. In 2003-2004, estimated expenditures from these bond funds total \$559 million, or three-quarters of the estimated \$750 million in local assistance from the SWRCB.

The Department of Health Service's (DHS) Office of Drinking Water administers the state's safe drinking water programs. Here, too, bond funds are dramatically increasing spending. In 1999-2000 – before the bonds – it lent \$21.3 million to local entities for drinking water projects (half of which was from federal sources) and made a small number of capital grants. The DHS drinking water budget appropriation in 2003-2004 includes \$115 million in local assistance from the recently passed Proposition 50, representing one-third of that year's DHS environmental control local assistance budget.

Whereas user fees are a straightforward local funding source for water and wastewater systems, there are questions about the funding of a relatively new area of water quality regulation – storm water. It is uncertain whether increases in local charges to pay for storm water management require two-thirds voter or property-owner approval for the increase or implementation of property-related fees or assessments. If more stringent voting standards are required, without federal or state subsidies, local governments will be responsible for meeting standards but will lack clear options for raising revenue.

Another question involves funding for the restoration of fish and wildlife habitats. Recent state bonds and efforts such as the CALFED Environmental Water Account, which buys and stores water to mitigate competing environmental and water user needs, show the public's and state's willingness to fund water for the environment. To meet the continued funding requirements of the CALFED program and new ecological challenges, however, funding mechanisms will have to keep pace.

Transportation

How people and goods travel through California will help determine the state's quality of life and continued prosperity. Transportation infrastructure financing has undergone dramatic shifts since the large-scale freeway projects of the 1950s and 1960s. Although the overall level of spending on highways and roads is now comparable to that of the earlier period, less of this money is now spent on construction and more is spent on operations. In 1967 and 2002, the combined capital and operating expenses for highways and roads totaled \$315 and \$332 per capita, respectively. In 1967, \$231 went to capital, versus only \$156 more recently. Mass transit has, meanwhile, emerged as a key sector. In 1972, California spent \$20 per capita on transit construction; in 2002, it spent twice that.¹⁸

In 1999-2000, capital outlay spending on highways and roads was evenly divided between state and local projects, with each spending slightly less than \$1.9 billion.¹⁹ Much of the local spending is allocated by cities and counties but is coordinated through regional transportation planning agencies, which receive revenue from the federal and state government.

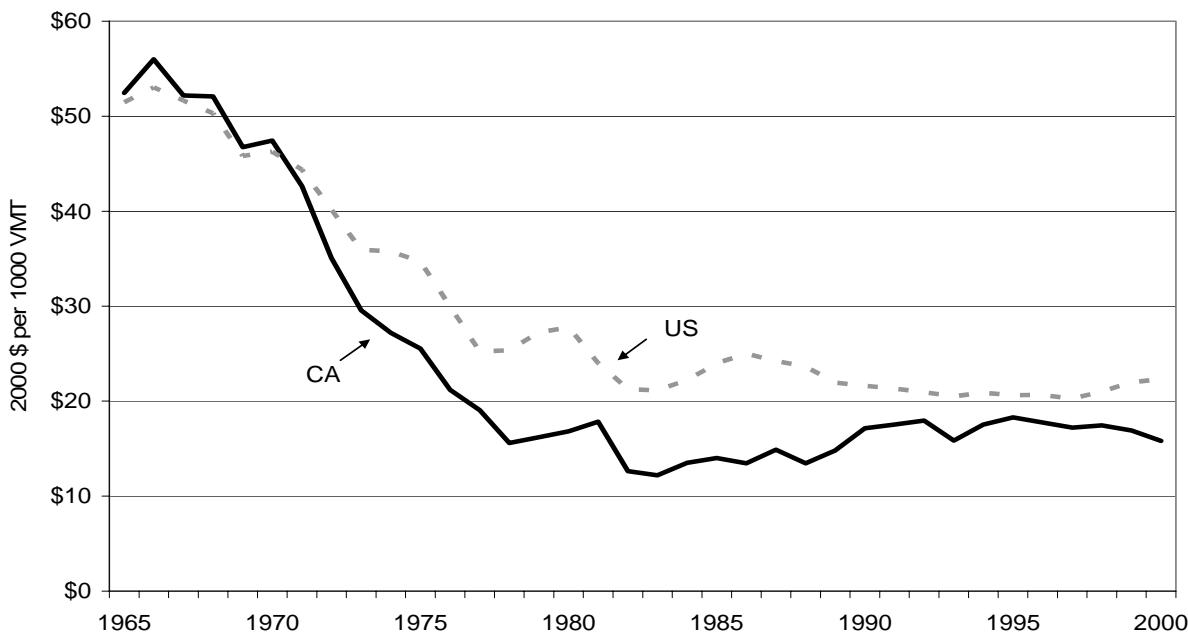
For transit, state and local capital outlay spending in 1999-2000 was \$2.6 billion – about 65 percent of operating expenditures (\$4.0 billion). Virtually all of the transit capital money is spent locally, although much of it comes from federal and state sources. Capital spending on mass transit was unusually high that year largely because of federal grants and local funds for the Bay Area Rapid Transit Authority (BART) and the Los Angeles County Metro Transportation Authority to complete extension projects. In 2001-2002, total transit capital expenditures fell to \$1.5 billion, a more representative level of recent transit infrastructure financing.

New freeway construction has faced increasing challenges over the past forty years as costs have risen, revenues have eroded over time, and financing has shifted away from a user fee approach. California real highway capital outlay spending per 1000 vehicle-miles traveled (VMT) declined dramatically from 1965 to 1980 and has remained relatively constant since (Figure 7). National trends have followed a similar pattern though the decline was less extreme. U.S. real per 1,000 VMT capital spending on highways was \$22.3 and California's spending was \$15.8 in 2000.

¹⁸ These real per capita numbers are based on U.S. Census Bureau reported figures, which can be found in Appendix Table A1.

¹⁹ For more information on expenditure sources for highways, roads, and transit see Appendix Table A5.

Figure 7
California versus U.S. Real Capital Outlay on Highways
(per 1000 VMT)



NOTE: Includes federal, state and local capital outlay expenditures.

SOURCES: Authors' calculations based on capital outlay and federal VMT data from the Federal Highway Administration (various years) and California VMT data provided by the California Department of Transportation (2004).

While spending declined in terms of vehicle mile traveled, costs of construction and maintenance rose dramatically because of more stringent freeway design standards, skyrocketing right-of-way costs, new environmental planning costs, and rising labor costs. The cost of constructing a new highway mile in the 1990s is estimated to be three times higher than the cost during the early 1960s.²⁰

Traditional sources of revenue for transportation have been user fees such as federal and state fuel taxes, sales taxes on fuel, vehicle registration fees, motor vehicle weight fees, drivers' license fees, and tolls. These revenues are deposited into special funds administered by the state and earmarked for transportation, including the Federal Highway Trust Fund, State Highway Account, and the Public Transportation Account. About one-third of the state gas and diesel tax is distributed to local governments for streets and roads; the remainder is deposited into the State Highway Account. California's federal gas and diesel tax contributions are deposited into the Federal Highway Trust Fund and redistributed. Additionally, 4.75 percentage points of the 6 percentage point sales tax on diesel fuel has historically been

²⁰ For a description of the methodology behind this calculation see Hanak and Barbour (2005).

allocated to the Public Transportation Account for transit operating expenses and improvements (Legislative Analyst's Office, 2002a). Table 12 shows the most recent revenue sources for state capital outlay transportation spending. Note that this does not include state or federal money passed through to local governments for capital, including most transit capital funding.

Table 12
State Transportation Revenues for Capital Outlay, 2002-2003
($\$$ millions)

Highway			
Bond Funds	\$ 32.3	1.4%	
Seismic Retrofit Bond Act of 1996	32.3		
Special Funds	\$ 725.8	32.0%	
State Highway Account	486.3		
Toll Bridge Seismic Retrofit Account	190.9		
Traffic Congestion Relief Fund	48.6		
Federal Trust Fund	\$ 1,480.7	65.2%	
Transit			
Special Funds	\$ 31.7	1.4%	
State Highway Account	23.7		
Public Transportation Account	0.3		
Traffic Congestion Relief Fund	7.7		
Total	\$ 2,270.5	100.0%	

SOURCE: California Department of Finance (2004-2005).

State and federal gasoline and diesel taxes are still important – funding about half of transportation spending and raising more than \$3 billion each in California annually. However, fuel tax increases have been sporadic and politically difficult to pass, making it hard to maintain revenues in real terms (Table 13). Additionally, this revenue source has become less reliable over time. Even with dramatic increases in vehicle travel, fuel consumption (and therefore real tax revenue) has declined because of increasing vehicle fuel efficiency.

Table 13
State and Federal Gas Tax Rates
(cents per gallon)

Year	California	Federal	Total	Total Real (2003)
1950	4.5	1.5	6.0	45.8
1951		2.0	6.5	46.0
1953	6.0		8.0	55.1
1956		3.0	9.0	60.9
1959		4.0	10.0	63.2
1963	7.0		11.0	66.1
1983	9.0	9.0	18.0	33.3
1987		9.1	18.1	29.3
1990	14.0	14.1	28.1	39.6
1991	15.0		29.1	39.3
1992	16.0		30.1	39.5
1993	17.0	18.4	35.4	45.1
1994	18.0		36.4	45.2
2003	18.0	18.4	36.4	36.4

SOURCE: California Department of Transportation.

The federal highway program used to be the largest source of federal aid to the states, and the federal share of state and local capital spending on highways reached 46 percent in 1960. But since the mid-1960s, federal money has shifted away from highway development and toward transit, local roads, and operations and maintenance. Federal authority has also devolved to regional transportation agencies and local control.

The current mix of transportation financing still represents a primarily pay-as-you-go system. But as gasoline tax revenue and federal funds have eroded, the state has turned to ballot initiatives to fund transportation capital projects (Table 14). In 1990 and 1996, voters approved GO bonds for rail transit (\$3 billion) and seismic upgrades of bridges and highways (\$2 billion). Californians also approved Proposition 42 in 2002, which earmarked 80 percent of the 6 percent state sales tax on gas to be spent on transportation projects, including highway improvement and repairs, mass transit, and local road and street repairs. (That revenue had previously been allocated to the general fund.) Proposition 42 is estimated to raise about \$1.2 billion per year in revenues for transportation. However, the funds can be allocated back to the general fund by a two-thirds majority vote of the Legislature, and this occurred at least partially in each of the subsequent budget years to help address the state's budget crisis.

Table 14
State Ballot Measures for Transportation Capital Outlay Funds, 1990-2004
(\$ millions)

Date	Proposition #	Amount proposed	Real amount proposed (2003 \$)	Passed	Purpose
Jun-90	108	1,000	1,250	Y	Rail Transit
Jun-90	116*	1,990	2,487	Y	Rail Transit
Jun-90	122	300	375	Y	Seismic
Nov-92	156	1,000	1,214	N	Rail Transit
Jun-94	1A	2,000	2,249	N	Seismic
Nov-94	181	1,000	1,124	N	Rail Transit
Mar-96	192	2,000	2,139	Y	Seismic
Nov-02	42+	6% sales tax		Y	Infrastructure

* \$29.9 million of Proposition 116 was allocated to the Alameda Corridor project, which facilitated shipping container rail transportation.

+ Proposition 42 allocated most of the existing 6 percent sales tax on gasoline for transportation projects.

Although voters have passed bond measures and initiatives to earmark funds for transportation, it is unclear in practice how this will translate into transportation capital funding in the near term. Future Proposition 42 funds are not guaranteed, repayment of loans from the general fund are uncertain, seismic retrofit costs have turned out to be higher than expected, federal fund levels are unknown, and a conversion to ethanol fuel will lower federal apportionments unless legislative action is taken.²¹ Raising gas taxes will be difficult politically given the current level of gasoline prices and the relatively small amount of money raised by a one cent per gallon increase in the fuel tax. While a large amount of money is still being expended for transportation, funds for new projects are extremely limited, and we may not be adequately planning for the future.

Local Revenue Sources

The decline in state gas tax revenues and federal funds has also prompted some local governments to seek new funding sources through the primary option at their disposal – a state sanctioned optional sales tax.²² Historically, local governments funded street and road construction predominantly through local general fund revenues (largely from property taxes) and their share of the gasoline tax pass-through from the state. In 1971, state voters also passed a ¼ cent general sales tax on all sales to fund local transit, which is deposited into each county's

²¹ Currently the excise tax on gasohol is lower than that on gasoline, with the decrease in excise tax being between 3 and 5.5 cents per gallon depending on the amount of ethanol in the mix.

²² Counties that have passed additional sales taxes for transportation usually pass a ½ cent rate for roads, and in the counties served by BART and in Los Angeles, another ½ cent tax has been passed for mass transit projects.

Local Transportation Fund; this tax raised about \$1 billion for transit operating and capital funds in 1999-2000 (Table 15). Since 1978, twenty counties approved local supplemental sales taxes of between $\frac{1}{4}$ and 1 percent dedicated for highway, street, road, and transit projects.

Table 15
Local Transportation Revenues, 1999-2000
($\$$ billions)

Optional local sales tax ($\frac{1}{4}$ to 1 cent sales tax)	2.6	34.7%
Local Transportation Fund ($\frac{1}{4}$ cent sales tax)	1.0	13.3%
Transit fares, property taxes & local operating assistance	1.4	18.7%
Other local funds	2.5	33.3%
Total		\$ 7.5

NOTE: Other local funds include local general funds, bond proceeds, fines and forfeitures, and road taxes.

SOURCE: Legislative Analyst's Office (2000).

The optional county sales taxes are now the largest local revenue source for transportation, constituting one-third of local revenues; in 2003, they nearly equaled state gasoline excise tax revenues. Because much state revenue is distributed with a match requirement, the ability to raise local sales taxes affects the distribution of state transportation funds as well.

Getting voter approval for introducing or renewing this funding source has become more difficult since 1995, when the voter threshold shifted from a simple majority to a two-thirds supermajority. Bay Area and Southern California counties have been most successful in passing these supplemental sales taxes (Figure 8). Nineteen counties currently have county sales taxes for transportation, an additional 15 counties have tried and failed to pass a tax at least once, and San Benito County had passed a sales tax in 1988 that expired in 1998. Marin and Sonoma Counties recently passed transportation sales taxes in November 2004 after failing to pass taxes in multiple earlier elections, and it has taken other counties several attempts to pass or renew these taxes.

Figure 8
California Counties That Ever Passed a Local Transportation Sales Tax



SOURCE: Surface Transportation Policy Project (2002); updated by authors.

Recent state budget shortfalls also affect local transportation funding. Some local government transit districts are facing a loss of funds as part of the Governor's negotiated deal with local governments. Under this deal, local governments forgo \$1.3 billion in local property taxes in each of the next two years in exchange for support of a ballot measure to safeguard local funds in future years.

It is clear that local governments are playing a larger role in transportation funding through the local sales taxes. The primary concern raised by this is the new supermajority requirement and the ability of counties to maintain these taxes. There are also geographical equity issues raised by the fact that these local taxes are largely concentrated in coastal communities. Additionally, increasing reliance on sales tax revenue further divorces transport use from transportation financing. Allocating the costs of transport to users of the system encourages more efficient behavior and can reduce negative effects, such as congestion. Forward-thinking strategies on transportation financing that consider the incentives on system use will be crucial to consider as California prepares for its transportation future.

Conclusion

California currently spends about as much as the rest of the country on infrastructure projects, but less on transportation infrastructure and more on water and resources than other states. California's current level of spending surpasses that of the 1960s, but again, the priorities have shifted.

Over the last decade, support for K-12 facilities has increased dramatically. Going forward, there are still important questions to be addressed. Should school districts be more responsible for facilities financing in the aftermath of Proposition 39? Should the state become less reliant on bond financing for school facilities and shift to an annual per pupil allocation of funding? Should revenues be distributed in a way to reflect differences in district wealth? Should state distributions be based more on future predicted growth or current enrollments? In higher education, where facilities represent a relatively small percentage of total higher education spending, questions of overall access are likely to be more pressing. Should admissions criteria be re-examined? Should higher education switch to more year-round programs? How should admissions decisions be made? How should tuition levels be set?

California continues to spend more than the national average of its infrastructure dollars on water supply and quality, although spending levels are in line with other Western states. Water users bear most of these costs, but rates are relatively low as a percentage of household income, and most water districts and municipalities have been able to meet their revenue needs. Going forward, the main water financing issues center around water quality and ecosystem restoration. Local governments are largely responsible for ensuring water quality, but because the costs of controlling storm-water runoff are not linked directly to benefits received by specific households, local governments could face a two-thirds vote requirement to pass new fees. Thus local authorities may be faced with clean-up costs without a clear way of paying for them. For ecosystem improvements, the question is whether voters will continue to support state bonds, since contributions by the federal government and water users have been relatively limited.

Transportation infrastructure seems to be the main area where California has fallen behind in investment. Today, many more highway dollars are used for maintenance rather than new construction. Transportation revenues are also increasingly allocated to mass transit programs that may or may not be cost-effective. Furthermore, traditional sources of revenue are declining in real terms. Federal and state fuel taxes, which currently raise 36.4 cents per gallon of gasoline, have not increased since 1994, and although Californians are driving more, increased fuel efficiency and higher project costs have further eroded the real value of the fuel tax revenue.

Increasingly, highway, road, and transit infrastructure is financed with other taxes, most notably dedicated county sales taxes. Renewal of these sales taxes might now face opposition as vote requirements have changed to require a two-thirds majority for passage or renewal. General sales taxes do not tie road use to the cost of providing roads, nor do they promote the efficient use of transportation infrastructure as much as a user-based gas tax or toll does.

Transportation questions go beyond the arithmetic of funding sources. How much of transportation costs should the actual users of transportation pay? How does building new

highways affect growth and congestion? Should transportation revenues go for roads or mass transit? These questions must be answered as California considers its infrastructure future.

Finally, California's increasing reliance on debt financing in recent years to help solve the state's budget crisis also limits the state's options in undertaking new projects. Our current debt load is projected to be about 7 percent for the next five years, higher than the level deemed prudent by credit rating agencies, which can limit our future ability to undertake new projects at the state level. Local governments also are faced with an increasingly restrictive environment for raising new revenues as voter approval is required for a growing list of sources. As new infrastructure projects are examined, these constraints might mean that new options for funding infrastructure will be necessary.

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Appendix A: Data Tables

Table A1
Historical Per Capita State and Local Capital Outlay and Non-Capital Outlay Spending
(real per capita 2003 \$), California

California	1957	1962	1967	1972	1977	1982	1987	1992	1997	2002
Capital Outlay										
Higher Education	22.5	43.4	51.4	31.0	38.2	28.5	40.4	37.4	39.7	35.5
K-12 Education	121.5	126.1	95.4	63.7	53.8	19.8	49.0	80.4	100.7	203.7
Highways	166.0	199.2	230.8	185.6	66.5	65.5	83.7	110.0	91.6	156.0
Sanitation/Sewer	18.5	19.8	22.4	31.3	41.1	44.0	39.1	55.2	58.0	50.2
Water	30.9	56.5	48.3	44.4	32.0	31.1	57.7	76.8	79.3	73.2
Transit	--	1.2	38.5	19.5	5.8	15.4	21.1	43.3	43.9	39.0
Resources/ Comm. Development	31.3	75.5	149.0	73.9	54.5	64.5	78.7	81.8	95.2	137.2
Other	94.3	107.8	109.0	128.2	82.4	90.1	160.8	173.6	173.9	236.3
Total	485.0	629.4	744.7	577.7	374.4	358.9	530.6	658.4	682.4	931.2
State Total	176.8	216.6	303.9	191.0	83.5	83.5	131.4	137.7	120.7	160.7
Local Total	308.2	412.7	440.8	386.7	290.9	275.3	399.2	520.7	561.7	770.5
Non-Capital Outlay										
Higher Education	67.0	171.9	212.9	250.5	328.6	336.4	371.6	397.8	362.1	555.5
K-12 Education	337.2	467.4	653.5	835.8	753.0	689.2	846.3	970.4	950.8	1339.5
Highways	54.2	62.0	84.2	85.0	85.4	80.1	113.5	132.9	116.7	176.6
Sanitation/Sewer	7.9	10.1	13.1	42.0	42.4	56.7	78.1	122.4	138.6	155.0
Water	32.2	45.2	59.9	78.7	75.3	84.2	117.9	135.5	153.5	180.4
Transit	--	23.2	25.2	34.4	52.8	69.0	80.7	101.7	121.8	153.0
Resources/ Comm. Development	78.9	91.7	107.5	153.0	128.2	149.7	200.7	242.6	253.8	300.4
Other	685.4	1038.3	1521.2	2025.8	2061.8	2190.1	2813.3	3522.9	3533.5	4723.8
Total	1262.8	1909.8	2677.6	3505.2	3527.5	3655.4	4622.2	5626.2	5630.8	7584.1
State Total	323.8	587.7	878.1	1066.7	1242.1	1331.3	1624.0	2077.3	2078.4	3036.7
Local Total	939.0	1322.2	1799.5	2438.5	2285.4	2324.1	2998.3	3548.8	3552.4	4547.4

NOTE: 2002 data are augmented with additional local capital outlay data from the State Controller's Office. See Appendix B for a description of the methodology.

SOURCES: U.S. Census Bureau, Governments Division (1957-2002); California State Controller (2004); U.S. Census Bureau, Population Division (1957-2003); Bureau of Labor Statistics price index.

Table A1 continued
Historical Per Capita State and Local Capital Outlay and Non-Capital Outlay Spending
(real per capita 2003 \$), United States

United States	1957	1962	1967	1972	1977	1982	1987	1992	1997	2002
Capital Outlay										
Higher Education	13.5	24.3	55.4	50.7	28.3	24.5	35.5	43.6	44.2	62.2
K-12 Education	76.6	77.6	90.2	82.2	57.2	47.5	67.3	103.6	130.8	187.4
Highways	145.4	179.0	214.7	210.0	126.3	120.5	163.7	176.9	176.0	233.3
Sanitation/Sewer	18.0	22.7	25.9	40.4	49.4	43.1	49.2	51.5	44.5	47.9
Water	20.9	23.4	24.0	23.1	20.6	24.5	35.4	36.3	34.1	44.0
Transit	3.3	2.3	7.4	8.4	16.9	20.4	24.0	27.6	29.4	40.6
Resources/ Comm. Development	19.8	35.8	32.3	54.9	37.3	42.2	48.4	51.5	55.6	75.4
Other	54.5	65.5	101.1	119.4	118.4	120.3	147.1	158.9	162.7	226.7
Total	352.1	430.7	550.9	589.3	454.4	442.9	570.7	650.0	677.3	917.5
State Total	144.1	185.1	262.4	260.1	170.7	155.6	214.8	238.7	233.4	317.0
Local Total	208.0	245.7	288.5	329.2	283.7	287.3	355.9	411.3	444.0	600.5
Non-Capital Outlay										
Higher Education	41.1	79.4	147.7	219.2	233.1	251.1	311.4	356.9	371.1	490.6
K-12 Education	254.7	377.4	537.1	712.0	662.9	653.8	838.6	978.4	1022.6	1261.8
Highways	72.7	86.7	102.0	113.7	105.7	108.4	138.6	143.7	145.3	173.8
Sanitation/Sewer	7.3	9.9	31.5	42.1	45.5	55.9	75.8	107.6	118.2	130.8
Water	23.3	29.8	34.8	40.5	43.6	51.2	71.2	81.9	87.8	101.2
Transit	14.8	17.5	21.8	30.5	39.4	53.6	67.5	76.2	74.1	91.5
Resources/ Comm. Development	40.0	51.7	83.7	84.2	87.0	108.0	140.5	169.0	181.6	223.6
Other	521.0	726.6	899.8	1410.4	1580.7	1743.0	2258.0	2926.5	3026.2	3826.9
Total	975.1	1378.9	1858.4	2652.6	2797.9	3024.9	3901.6	4840.3	5026.9	6300.2
State Total	328.2	468.9	640.2	973.6	1125.1	1247.5	1600.5	2136.1	2229.6	2910.4
Local Total	646.9	910.0	1218.2	1679.0	1672.7	1777.4	2301.0	2704.2	2797.3	3389.7

NOTE: 2002 data are augmented with additional local capital outlay data from the State Controller's Office. See Appendix B for a description of the methodology.

SOURCES: U.S. Census Bureau, Governments Division (1957-2002); California State Controller (2004); U.S. Census Bureau, Population Division (1957-2003); Bureau of Labor Statistics price index.

Table A2
Total Capital Outlay and Non-Capital Outlay Spending, 1996-1997
(\$ millions)

California						
	Capital spending	Percent of total capital outlay	State capital spending	Local capital spending	Non-capital spending	Capital to non-capital spending ratio
Higher Education	1,220.0	5.8	893.6	326.3	11,127.4	0.11
K-12 Education	3,094.3	14.8	3.6	3,090.6	29,216.0	0.11
Highways	2,814.4	13.4	1,531.6	1,282.8	3,586.6	0.78
Sanitation/Sewer	1,782.7	8.5	4.1	1,778.6	4,257.9	0.42
Water	2,437.1	11.6	0.0	2,437.1	4,715.6	0.52
Transit	1,349.4	6.4	0.0	1,349.4	3,743.2	0.36
Resources/ Comm. Development	2,926.4	14.0	558.7	2,367.7	7,799.2	0.38
Other	5,344.6	25.5	716.9	4,627.7	108,579.4	0.05
Total	\$20,968.9	100.0	\$3,708.5	\$17,260.4	\$173,025.4	0.12

United States						
	Capital spending	Percent of total capital outlay	State capital	Local capital	Non-capital spending	Capital to non-capital spending ratio
Higher Education	11,279.1	6.5	9,787.1	1,492.0	94,781.9	0.12
K-12 Education	33,411.4	19.3	1,127.7	32,447.9	261,187.0	0.13
Highways	44,961.7	26.0	32,726.4	12,235.4	37,100.2	1.21
Sanitation/Sewer	11,367.3	6.6	615.4	10,751.9	30,182.0	0.38
Water	8,720.4	5.0	28.8	8,691.6	22,415.9	0.39
Transit	7,499.2	4.3	2,237.5	5,261.8	18,936.7	0.40
Resources/ Comm. Development	14,187.9	8.2	3,221.6	10,966.2	46,374.6	0.31
Other	41,560.1	24.0	9,855.0	31,540.9	772,919.9	0.05
Total	\$172,987.2	100.0	\$59,599.5	\$113,387.7	\$1,283,898.1	0.13

SOURCES: U.S. Census Bureau, Governments Division (1997).

Table A3
Total Capital Outlay and Non-Capital Outlay Spending, 2001-2002
(\$ millions)

California						
	Capital spending	Percent of total capital outlay	State capital spending	Local capital spending	Non-capital spending	Capital to non-capital spending ratio
Higher Education	1,223.6	3.8	688.1	535.5	19,152.1	0.06
K-12 Education	7,021.4	21.9	0.0	7,021.4	46,181.5	0.15
Highways	5,379.0	16.8	2,989.5	2,389.5	6,087.8	0.88
Sanitation/Sewer	1,731.5	5.4	4.7	1,726.7	5,344.0	0.32
Water	2,525.0	7.9	0.0	2,525.0	6,219.5	0.41
Transit	1,345.7	4.2	0.0	1,345.7	5,276.1	0.26
Resources/ Comm. Development	4,731.7	14.7	848.0	3,883.7	10,358.6	0.46
Other	8,147.9	25.4	1,010.5	7,137.4	162,865.6	0.05
Total	\$32,105.8	100.0	\$5,540.8	\$26,565.1	\$261,485.1	0.12

United States						
	Capital spending	Percent of total capital outlay	State capital	Local capital	Non-capital spending	Capital to non-capital spending ratio
Higher Education	17,647.9	6.8	15,365.2	2,282.7	139,162.3	0.13
K-12 Education	53,150.8	20.4	490.0	52,660.8	357,922.1	0.15
Highways	66,169.7	25.4	49,271.5	16,898.1	49,297.8	1.34
Sanitation/Sewer	13,596.6	5.2	678.4	12,918.3	37,104.4	0.37
Water	12,493.6	4.8	222.2	12,271.3	28,708.5	0.44
Transit	11,513.8	4.4	3,911.2	7,602.7	25,954.4	0.44
Resources/ Comm. Development	21,389.8	8.2	4,830.1	16,559.7	63,427.3	0.34
Other	64,294.1	24.7	15,150.5	49,143.7	1,085,540.7	0.06
Total	\$260,256.3	100.0	\$89,919.0	\$170,337.3	\$1,787,117.6	0.15

NOTE: U.S. Census Bureau data are augmented with additional local capital outlay data from the State Controller's Office. See Appendix B for a description of the methodology.

SOURCES: U.S. Census Bureau, Governments Division (2002); California State Controller (2004).

Table A4
State Budget Capital Outlay Expenditures over time
(actual \$ millions, real per capita 2003 \$)

	1965-66 actual	1965-66 real per capita	1984-85 actual	1984-85 real per capita	2002-03 actual	2002-03 real per capita
Transportation	659.38	159.84	892.97	48.34	2301.95	64.87
Resources	308.63	74.82	73.15	3.96	537.00	15.13
Higher Education	133.51	32.36	74.75	4.05	453.55	12.78
K-12 Education	112.40	27.25	443.24	24.00	7263.10	204.68
Corrections	7.63	1.85	86.84	4.70	9.96	0.28
Health & Human Services	7.46	1.81	14.14	0.77	1.90	0.05
General Govt & Other	37.31	9.04	17.15	0.93	39.80	1.12
Total	\$1,266.3	\$307.0	\$1,602.2	\$86.7	\$10,607.3	\$298.9

NOTE: K-12 education capital outlay is state money given as local assistance to fund local school district capital outlay. Expenditures do not include non-governmental cost funds.

SOURCES: California Department of Finance (1967-1968, 1986-1987, 2004-2005).

Table A5
California State Budget and Local Controller data, 1999-2000

K-12 Education	School Districts	State Budget		Total	Capital/ Operating
Operating Expenditures	39,784		218	40,002	
Capital Outlay	5,000		1	5,001	13%
Local Assistance			32,863		
Higher Education	Community College Districts	State Budget	University Funds *	Total	Capital/ Operating
Operating Expenditures	4,429	10,312	8,214	22,954	
Capital Outlay	219	436	1,378	2,033	9%
Local Assistance		3,087			
Water	Cities	Special Districts	Local Total	State Budget	Total
					Capital/ Operating
Water Supply & Drinking Water					
Operating Expenditures	2,127	3,763	5,890	332	6,223
Capital Outlay	571	2,253	2,824	460	3,284
Local Assistance				93	53%
Sewer & Other Water Quality					
Operating Expenditures	1,795	1,274	3,069	339	3,408
Capital Outlay	754	706 +	1,460		1,460
Local Assistance				230	43%
Highways, Streets, Roads	Local Entities	State Budget		Total	Capital/ Operating
Operating Expenditures	2,165		1,026	3,191	
Capital Outlay Support			887	887	
Capital Outlay	1,888		1,774	3,662	90%
Local Assistance			860		
Transit	Local Entities	State Budget		Total	Capital/ Operating
Operating Expenditures	3,891		89	3,979	
Capital Outlay	2,523		45	2,568	65%
Local Assistance			453		

* See Appendix B for a definition of University Funds.

+ Special district sewer capital outlay is estimated; see Appendix B for the methodology.

SOURCES: California Department of Finance (2001-2002); California State Controller (1999-2000); Chancellor's Office (1999-2000).

Appendix B: Data Sources and Methods

Census of Governments

Fiscal information for state and local government totals in California and the United States was obtained from the U.S. Census Bureau, Governments Division, Census of Governments, Vol. 4, *Compendium of Government Finances*, 1957, 1962, 1967, 1972, 1977, 1982, 1987, 1992, and 1997, and 2002 data files available at www.census.gov/govs/www/index.html. This information contains fiscal data for all state and local governments in the United States including states, counties, municipalities and townships, school districts, and special districts surveyed by the U.S. Census Bureau for the U.S. Department of Commerce.

To obtain real figures, we deflate by the Producer Price Index for Materials and Components for Construction provided by Bureau of Labor Statistics, WPUSOP2200. To obtain per capita figures, we divide by California and United States annual Population Estimates and ten-year Census counts provided by the U.S. Census Bureau, Population Division. Price indices and population estimates used in a given fiscal year represent the later year of the fiscal year.

Census of Governments special district capital outlay data for 2002 were incomplete, because of a reporting change of fixed assets by the California State Controller. To correct for this problem, we have added in \$3,042,672,000 to the special district capital outlay totals and in the respective sectors of Resources/Community Development, Water, Sanitation/Sewer, and Other for both California and the United States. This amount was compiled from data supplied by the California State Controller for Total Fixed Assets by special district type in 2001 and 2002; we calculated the change in fixed assets between the two years and used these totals to augment what was reported by the Census of Governments for California and United States special district capital outlay.

Census data are useful for comparisons of total, state, and local expenditures over time and between California and the rest of the United States. However, certain sector totals for capital outlay cannot be tracked consistently over time. For instance, the "Water supply" expenditure category only includes local government expenditures prior to 1977, not state or federal water supply expenditures. Additionally prior to 1982 the *Compendium of Government Finances* does not list capital outlay expenditures for Police protection, Fire protection, Health, Public Welfare, or Sanitation. These expenditures can be calculated from raw data files in 1972 and 1977, but the 1960s raw files do not allow this calculation. Thus to avoid differences in definitions and incomplete comparisons, we do not use the Census of Governments data to compare expenditures by function over time, but it is useful for total expenditure comparisons.

California State Budget

Fiscal information on more detailed state-level expenditures and revenues was obtained from the California Department of Finance, Governor's Budget, 1962-63, 1967-68, 1986-87, 2000-01, and 2004-05. The budget of a given fiscal year contains actual expenditures for the fiscal year two years previous (i.e., the 2004-05 budget contains 2002-03 actual expenditures).

For total expenditures we use numbers reported in the Budget Appendix Schedule 9. These totals include General, Special, Bond, and Federal Funds but do not include reimbursements from other levels of government or non-governmental cost funds (i.e., student fees for UC, privately raised funds for UC and CSU, certain transportation funds, and other funds that are not included in budget totals). For expenditures of individual function categories (i.e., Transportation, Education), we have added non-governmental cost fund expenditures to reported budgetary expenditures by reviewing Department and Agency budgets. Reimbursements remain excluded.

In the case of higher education, the state budget lists revenue sources that are not in fact collected at the state level. Appendix Table A5 refers to these as "University Funds"; they include Higher Education Fees and Income, Nonfederal University Funds, Nonfederal Extramural Funds, Hastings Fund, Hastings Extramural Fund, Other Unclassified Funds (State Operations & Capital Outlay), CSU Colleges Dormitory Revenue Fund, CSU Parking Revenue Fund, State University Continuing Education Revenue Fund, and the Special Deposit Fund.

The following state departments are included in each function category listed in Appendix Table A5:

Transportation: California Transportation Commission (Transit), Department of Transportation (excluding Aeronautics and Transportation Planning and Administration, which cannot be allocated between Highways and Transit), High-Speed Rail Authority (Transit), Special Transportation Programs (Transit)

Water Supply and Drinking Water: Department of Water Resources, Department of Health Services Office of Drinking Water

Sewer and Water Quality: State Water Resources Control Board

Higher Education: California Postsecondary Education Commission, University of California, Hastings College of Law, California State University, Board of Governors of the California Community Colleges, California Student Aid Commission

Education: Department of Education, State Contributions to the State Teachers' Retirement System, School Facilities Aid Program, Commission on Teacher Credentialing

In 1962-63 and 1967-68 the budget format is different. General, Special, and Bond Fund capital expenditures are taken from the Capital Outlay Budget Schedule 1 for each category. Federal Fund expenditures are taken from Schedule 2. Other funds not included in overall budget totals are not included. All capital expenditures including the State Building Program, District Fair Construction Program, State Highway Program, Wildlife Conservation Program, Parks and Recreation Acquisition and Development Program, and California Water Facilities Program are included. For K-12 education, local assistance "Payments to Schools Districts" from the State School Building Aid Fund, Public School Building Loan Fund, and State School Construction Fund are included as capital outlays.

California Local Governments

Fiscal information on more detailed local-level expenditures and revenues was obtained from the California State Controller's Office Annual Financial Reports for Counties, Cities, Special Districts, School Districts, Streets and Roads, and Transit Operators, 1999-00, and the Chancellor's Office of California Community Colleges *Fiscal Data Abstract*, 1999-00. Appendix Table A5 details local government data in each function category for operating expenditures and capital outlay.

K-12 school district expenditures are reported in the *School Districts Annual Report*; capital outlay is reported in Figure 12, and operating expenditures are total expenditures minus capital outlay. Higher education community college district expenditures are reported in the Chancellor's Office *Fiscal Data Abstract*; the capital outlay total is reported in Table VII, and operating expenditures are "total expenditures and other outgo" minus capital outlay. Water local expenditure data are reported in the *Cities Annual Report* and *Special Districts Annual Report*; capital outlay and operating expenditures are reported in Table 7 for cities, and capital outlay (classified as "additions to fixed assets") and operating expenditures are reported in Tables 22 and 23 for special districts. Highways, streets, and roads expenditures are reported in the *Streets and Roads Annual Report*; capital outlay (classified as "construction and rights of way") is reported in Figure 1, and operating expenditures are calculated as total expenditures minus capital outlay. Transit expenditures are reported in the *Transit Operators and Non-Transit Claimants Annual Report*; capital outlay (classified as "capital additions to equity") is reported in Figure 5, and operating expenses are reported in Figure 10.

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