

How Does California Make Its Infrastructure Decisions?

California's history, landscape, and identity have been marked indelibly by its vast and sometimes controversial infrastructure. Over the last decade, however, the state has replenished and repaired that infrastructure at an annual rate of less than 1 percent. As a result, identified needs now exceed available resources. In response to this problem, the governor has charged the Commission on Building for the 21st Century with investigating financial options for narrowing the gap between needs and resources.

Although investigating financial options is crucial, the commission's charge seems to neglect another important policy consideration: the way infrastructure decisions are made in the first place. In *Building California's Future: Current Conditions in Infrastructure Planning, Budgeting, and Financing*, Michael Neuman and Jan Whittington examine this decisionmaking process at the state level. Based on interviews with policymakers and a thorough review of laws, rules, and budgets, their study evaluates how departments, legislators, and the governor interact to plan, budget, finance, and prioritize infrastructure projects.

How Infrastructure Projects Are Planned and Approved

Most infrastructure planning originates at the department level and is guided by the State Administrative Manual. Each department prepares a capital budget based on proposals for individual projects. These proposals are sent to the Department of Finance (DOF), the Department of General Services, and the Legislative Analyst's Office (LAO). The DOF has the authority to reject or request changes to proposals and may ask the Department of General Services for feasibility reviews. It also conducts budget hearings and advises the governor, who decides which proposals to include in the governor's budget. After piecing together the state's overall capital budget, the DOF presents the Budget Bill and the Governor's Budget to the LAO and legislative staff. The

LAO analyzes the bill, the legislature holds budget hearings, and both houses send an approved bill to the governor, who, after consulting the DOF, may veto capital budget items before signing the final budget bill.

Although most infrastructure projects pass through this lengthy process several times, some state agencies have earned varying degrees of freedom from it. For example, the University of California and California State University systems may select projects for streamlined processing. The legislature also has a standing rule to fund transportation needs by program categories rather than at the project level. New prison facilities often enter the appropriations process through the legislature and are therefore evaluated separately from other infrastructure projects. The Department of Water Resources has received continuous funding for planning and administrative costs since 1960, and revenue bonds finance most of its infrastructure development costs. The authors note that the state's most sophisticated planning and development efforts operate at the margins or completely outside of the procedures described in the State Administrative Manual.

Key Characteristics of Infrastructure Decisionmaking

Three features characterize the state's infrastructure decisionmaking process. The first is its project-orientation. Each department prepares plans for specific projects and then submits a list of those projects as its overall plan. As a result, California is relatively strong on project planning by individual agencies and weak on statewide planning and strategy.

The influence of the annual budget process is another feature of the state's decisionmaking. Decisions are often guided by the details of that process rather than by broad policy goals. Because the annual budget process provides no

formal mechanism for matching projects to overarching goals, it tends to reward short-term budget balancing rather than long-term asset management. Furthermore, it cannot anticipate or respond readily to changes in the business cycle. As a result, the state loses some of its ability to control construction costs and to offset economic downturns with public works spending.

The third major characteristic of infrastructure decision-making is the overriding importance of financing. Available funds, rather than long-term priorities, define infrastructure “needs” at all stages of the process. This characteristic has at least three questionable effects. First, it defines future social needs according to the state’s current budget. Second, it tends to neglect assessment and maintenance in favor of crisis management. Finally, it emphasizes long-term debt over other options, such as demand management and user fees, that could help close the gap between identified needs and available funds.

Specific Findings

1. **Identified infrastructure needs outstrip available resources.** The current policy debate proceeds from this consensus view.
2. **The definition of infrastructure is changing.** Infrastructure now includes information systems, satellites, and a spectrum of public and private services. Ownership and responsibility are less clear; partnerships and problems are more common.
3. **Infrastructure decisionmaking occurs in complex networks.** Unraveling these networks, which have developed incrementally, is a painstaking process. Piecemeal reform efforts cannot redress the lack of a statewide vision or strategy.
4. **Competition for infrastructure resources is the inevitable by-product of project-based financing and budgeting.** In the absence of big-picture planning, the legislature has become involved in details rather than long-term leadership and oversight.

5. **The annual budget process lacks a mechanism for dealing with substantive tradeoffs.** The governor and legislature cannot easily compare needs across departments or address social or regional inequalities.
6. **There is no life-cycle framework for infrastructure.** The current approach favors financing and budgeting over planning and assessment. It therefore overvalues short-term planning and new projects and undervalues maintenance.
7. **The current system ignores the effects of the business cycle.** As a result, the state cannot offset economic downturns or use fluctuations strategically to control construction costs.
8. **Information for capital decisions is limited.** Although the LAO receives the strategic and five-year plans prepared by departments, these plans are not part of the legislative review of the budget.
9. **Information is erratic and biased in unpredictable ways.** Each agency uses its own methods for planning and justifying its own budget.
10. **Resources dedicated to infrastructure management vary widely among agencies.** There is no centralized training and professional development for infrastructure managers and staff. Retaining expert staff, especially project managers, is difficult in the face of private sector competition in a strong economy.

Conclusions

The authors found that the state’s decisionmaking apparatus, like the infrastructure system itself, manages to work but needs repair. The authors conclude that the transaction costs associated with the current approach are unsustainably high and that an alternative approach should stress strategic thinking, coordination, and efficient information management. They also note that the recent passage of AB 1473, which calls for a statewide five-year infrastructure plan, may mark a step in the right direction if the implementing mechanisms are well designed.

This research brief summarizes a report by Michael Neuman and Jan Whittington, Building California’s Future: Current Conditions in Infrastructure Planning, Budgeting, and Financing (2000, 128 pp., \$12.00, ISBN: 1-58213-024-8). The report may be ordered by phone at (800) 232-5343 [mainland U.S.] or (415) 291-4415 [Canada, Hawaii, overseas]. A copy of the full text is also available on the Internet (www.ppic.org). The Public Policy Institute of California is a private, nonprofit organization dedicated to independent, objective, nonpartisan research on economic, social, and political issues affecting California. This project was supported by PPIC through an Extramural Research Program contract.
