# FINANCING INFRASTRUCTURE

SEPTEMBER 2008

- **CALIFORNIA SPENDS ABOUT AS MUCH ON INFRASTRUCTURE AS THE NATIONAL AVERAGE.**
State and local government expenditures on capital outlays declined sharply in the 1970s in California and the nation, as measured in inflation-adjusted dollars. Spending picked up again in the early 1980s and then increased quickly between 1997 and 2002. In 2002, California spent $1,167 per person on capital outlays, compared to $1,150 in the nation as a whole (in 2007 dollars). This is 25% more than the state spent per person in 1967—the previous high point in its infrastructure spending.

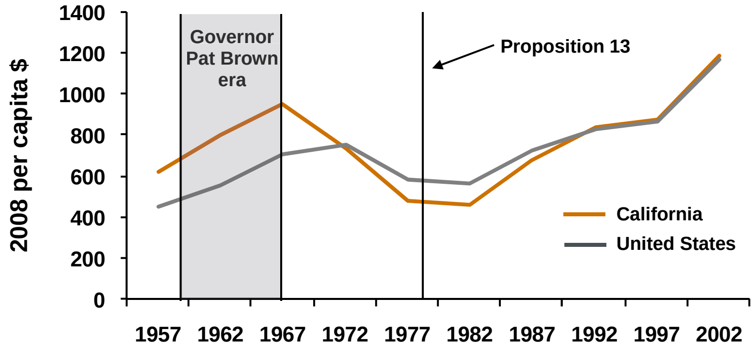
- **GENERAL OBLIGATION BONDS HAVE BECOME INCREASINGLY IMPORTANT.**
In 2005–06, 73% of California's state revenues for infrastructure financing were estimated to derive from bonds, compared to 42% in 1965–66. Since 1972, California voters have approved $178 billion in general obligation bonds (in 2007 dollars), with more than half approved over the past decade. State bonds are easier to pass than local bonds, because they require only a simple majority of voter approval. Most local bonds require a two-thirds majority (local education bonds require a 55% majority). If the five state infrastructure bonds that passed in November 2006 had been subject to local voting thresholds, only one (an education bond) would have passed.

- **EDUCATION: PROPOSITION 39 HAS FACILITATED PASSAGE OF LOCAL SCHOOL BONDS.**
Rising enrollments and low per-student spending in the 1980s and most of the 1990s led to classroom shortages in K–12 education and projected shortages in higher education. Since 2001, voters have approved $28.7 billion in state bonds and $36 billion in local bonds for K–12 facilities, $7 billion in state bonds for higher education, and $17.5 billion in local bonds for community colleges. For local school bonds, the passage in November 2000 of Proposition 39—which lowered the voter majority from two-thirds to 55%—has been instrumental: 53% of K–12 bonds and 75% of community college bonds that passed since then would not have passed under the 2/3 majority requirement.

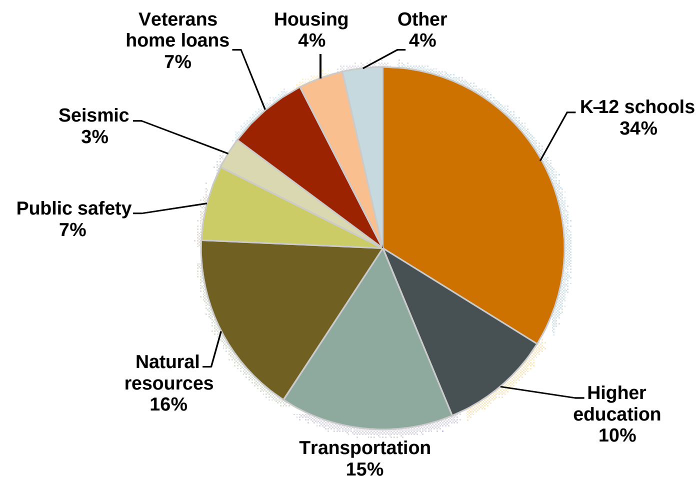
- **WATER MANAGEMENT: LOCAL FINANCING HAS BECOME MORE DIFFICULT.**
Since the 1996 passage of Proposition 218 (which changed local government finance rules), local flood control and stormwater managers have faced a two-thirds voter majority requirement to raise fees. Until recently, water and wastewater utilities also faced fewer constraints, needing only majority approval from their boards to raise rates; but since a 2006 court ruling, they must offer property owners an opportunity to reject rate increases.

- **TRANSPORTATION: LOCAL FINANCE IS CHALLENGING, FEDERAL AND STATE FUNDING IS IMPROVING.**
Rising fuel efficiency and inflation have eroded the value of California's primary transportation funding sources – federal and state gas taxes (currently 18.4 and 18 cents per gallon, respectively). Nineteen counties are using optional county sales taxes to help fill the gap. Getting voter approval for introducing or renewing these taxes has become more difficult since Proposition 218. However, the latest federal transportation spending bill in 2005 has improved the outlook for state transportation funding, as has a $20 billion state bond passed in November 2006.

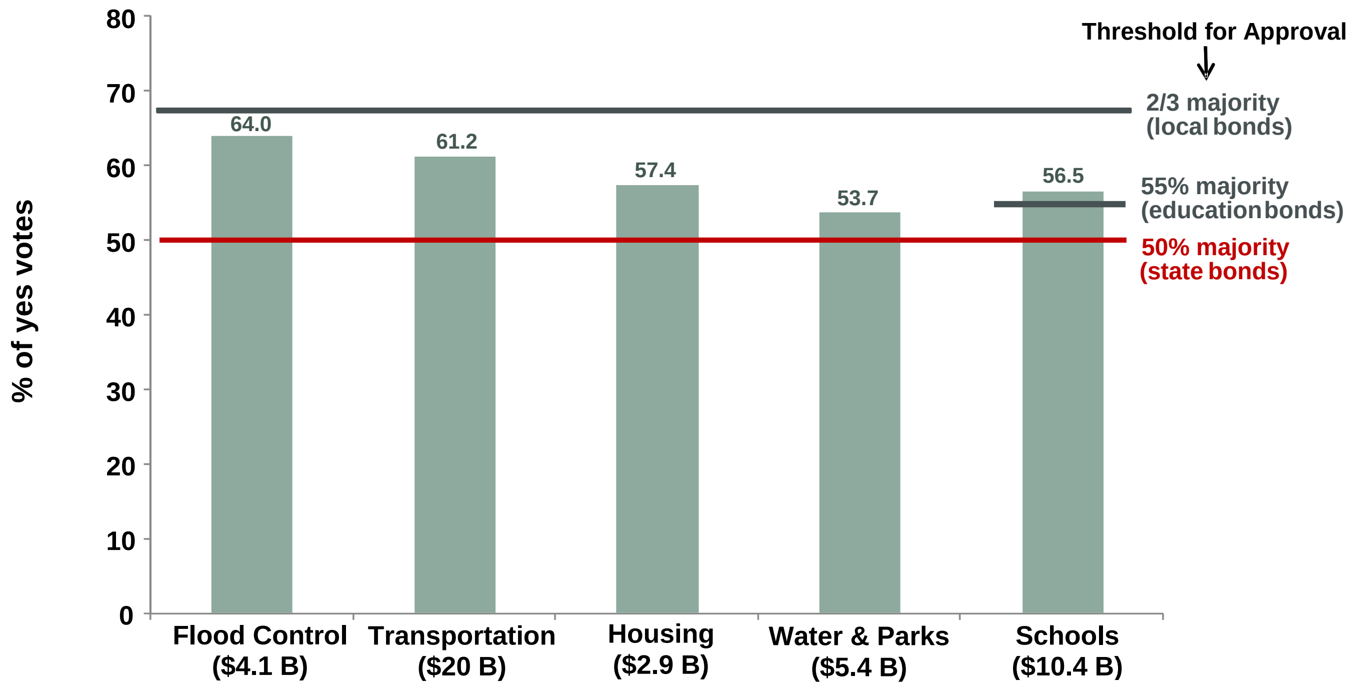
## Per Capita State and Local Capital Outlay Expenditures, 1957–2002




## State General Obligation Bonds for Infrastructure, 1972–2006 $178 billion (2007 $)




## State Infrastructure Bonds on November 2006 Ballot




**Note:** Under ***local*** bond rules, only one bond on the November 2006 ballot would have passed.

**Sources:** California State Controller. California Department of Finance. California Secretary of State. U.S. Census Bureau.

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