Supported with funding from The William and Flora Hewlett Foundation

AT ISSUE

PUBLIC POLICY INSTITUTE OF CALIFORNIA

PAYING FOR INFRASTRUCTURE: CALIFORNIA'S CHOICES

ELLEN HANAK, WITH RESEARCH SUPPORT FROM DAVIN REED

California faces tremendous challenges as a result of the current economic downturn and the state budget crisis. Addressing these challenges will force the state to reopen politically difficult discussions about what level of services to provide to the public and how to pay for them. Infrastructure finance—essential to California's long-run growth and development—must be part of these discussions. Meeting infrastructure needs will be expensive: The state administration estimates a $500 billion price tag for rebuilding California's transportation, water, school, and other systems over the next 20 years. Moreover, California's system for financing these investments is seriously flawed. Today's fiscal challenges make it even more imperative to address these flaws. In this *At Issue*, we present the background and rationale for several infrastructure financing reforms.

CONSTRAINTS ON INFRASTRUCTURE INVESTMENT

In January 2006, Governor Arnold Schwarzenegger announced a Strategic Growth Plan for California.[1] The governor's plan sought to spur a new phase of state leadership in rebuilding and modernizing key services.[2] It set ambitious goals, called for new spending, and proposed reforms for investing in the state's infrastructure, to support economic growth and improve the quality of life for California residents. In making its case, the plan drew comparisons with the Golden Age of the 1950s and 1960s under Governor Pat Brown—a time when freeways, the State Water Project, and the university system were built to meet the needs of a growing state.

Over much of the time since then, California's infrastructure investments have declined (Figure 1). The infrastructure backlog this decline created affects the daily lives of Californians in many ways: overcrowded classrooms, congested and poorly maintained roadways, and a deteriorated levee network that exposes residents to high flood risk and threatens the state's water supply, to name a few.[3]

Since the governor's plan was announced, California voters have approved nearly $54 billion in state general obligation bonds for infrastructure projects. However, expanding financing options beyond such bonds has been more difficult. For example, California's infrastructure finance system is hamstrung by strict supermajority voter approval requirements (two-thirds) on local revenue measures, a decline in user fees, and insufficient ability to engage in public-private partnerships. Indeed, in these key areas of local funding, user fees, and partnerships with the private sector, California appears to be backsliding. Below, we discuss the opportunities these funding sources present, the constraints on their use, and some options for policy redesign. Augmenting these opportunities is important, because California's needs far surpass the capacity of state bond funding.