

AGENDA

ASSEMBLY BUDGET SUBCOMMITTEE NO. 4 STATE ADMINISTRATION

ASSEMBLYMEMBER TOM DALY, CHAIR

TUESDAY, FEBRUARY 25, 2014
1:30 P.M. - STATE CAPITOL ROOM 447



ITEMS TO BE HEARD		
ITEM	DESCRIPTION	
1	CALIFORNIA'S FIVE-YEAR INFRASTRUCTURE PLAN	2

ITEMS TO BE HEARD

ISSUE 1: CALIFORNIA FIVE-YEAR INFRASTRUCTURE PLAN

The subcommittee will discuss and consider the Governor's proposed California Five-Year Infrastructure Plan.

PANELISTS

Panel 1: Infrastructure Investment

- Dr. Mike Shires, Pepperdine University
- Jim Earp, California Alliance for Jobs

Panel 2: Overview of the California Five-Year Infrastructure Plan

- Keely Bosler, Department of Finance
- Greg Rogers, Department of Finance
- Helen Kerstein, Legislative Analyst's Office

BACKGROUND

In January, the Governor released the California Five-Year Infrastructure Plan, which identifies resources for state priorities starting in 2014-15 through 2018-19. The majority of the plan focuses on the transportation sector, with half of the identified transportation resources dedicated to High Speed Rail. Other priorities include the conditions of our state prisons, hospitals, and state special schools due to the attention received by outside actors, particularly the federal government and federal courts.

Capital funding and deferred maintenance are the two main elements to the Governor's Plan. For capital funding, the Governor's Plan proposes a \$56.7 billion investment over the next five years. Of this amount, only a small portion of \$308.5 million comes from the General Fund. The remaining funds are identified as follows: \$12.1 billion from various special funds, \$6.1 billion from bond funds, \$32.3 billion from federal funds, and \$5.9 billion from other funds.

Proposed Spending Under Infrastructure Plan (Dollars in millions)		
Program Area	Capital Funding	2014-15 Deferred Maintenance
Judicial Branch	\$1,295	\$15
High Speed Rail/Transportation	53,418	337
Natural Resources	1,093	43
Health and Human Resources	151	20
Corrections and Rehabilitation	377	20
Education	231	368
General Government	176	12
Total	\$56,741	\$815

The second element of the Governor's Plan is deferred maintenance. These projects include actions like repainting, re-roofing, repairing wiring and plumbing, replacing old equipment items and repairing roads to extend the life of infrastructure. Maintaining capital investments and deferred maintenance ensures the longest useful life of the existing state facilities.

An agency's department budget provides very limited funding for maintenance, and provides no funding for large maintenance projects. In the past, departments have had to prioritize maintenance activities and defer larger projects until funding is available.

The Governor's plan identifies a total of \$64.6 billion of deferred maintenance needs with the largest portion attributed to the transportation sector. Of the \$64.6 billion, the plan identifies \$59 billion for roads.

Identified Statewide Deferred Maintenance (Dollars in Millions)	
Department of Transportation	\$59,000
Judicial Branch	2,000
Department of Parks and Recreation	1,540
Department of Corrections and Rehabilitation	959
University of California and California State University	573
Department of Developmental Services	175
Department of General Services	105
California Military Department	86
Department of State Hospitals	69
State Special Schools	28
Department of Forestry and Fire Protection	27
Other	45
Total	\$64,607

Proposed Spending for FY 2014-15

The Governor's proposed 2014-15 budget includes \$7.2 billion for capital outlay projects and \$815 million in one-time investments for deferred maintenance. The \$7.2 billion is comprised of \$28 million in General Fund, \$1.8 billion from special funds, \$1.2 billion from bond funds, \$2.9 billion in federal funds, and \$1.2 billion from other state funds.

The proposed one-time funding of \$815 million for deferred maintenance is a very small portion of the total deferred maintenance costs.

Debt Management

The 2014 California Five-Year Infrastructure Plan evaluates infrastructure needs in the context of all available funding sources, including what the state can afford and how the state can grow in the most sustainable way. Currently, the debt service general obligation and lease revenue bonds have grown by 145 percent from 2000-01 to 2013-14, from \$2.9 billion to \$7.1 billion. It is expected to grow by an additional \$2.4 billion once the authorized but unissued bonds are issued.

Past budgetary challenges have forced the state to rely heavily on debt financing rather than "pay-as-you-go" spending. As a result, one out of every two dollars spent on infrastructure investments goes to pay interest costs instead of building materials. From 1974 to 1999, California voters authorized \$38.4 billion of general obligation bonds. Additionally, since 2000 voters authorized more than \$95.9 billion in additional general obligation bonds. Of this amount, \$83.6 billion in debt remains outstanding and there is \$33.9 billion of general obligation and lease-revenue bonds that have been authorized, but not yet issued.

Budget Bill Language: Control Section 6.10

The Budget Bill includes Control Section 6.10 to allow the Director of Finance to allocate \$100 million General Fund to the following departments for Deferred Maintenance:

Agency	\$ Dollars in Millions
Parks and Receptions	\$40
Corrections and Rehabilitation	20
Developmental Services	10
State Hospitals	10
General Services	7
State Special Schools	5
Military	3
Forestry and Fire Protection	3
Food and Agriculture	2
Total	\$100 M

Prior to allocation, the agencies must provide the Department of Finance a list of deferred maintenance projects and Finance must review and provide the list to the Joint Legislative Budget Committee, 30 days prior to allocating funds. The funds are to be available for encumbrance until June 30, 2016.

The Control Section language only applies to the deferred maintenance projects to be funded by the General Fund. The other \$715 million of deferred maintenance projects included in the Governor's proposal are to be funded by special funds, bond funds, federal funds, and other funds.

LEGISLATIVE ANALYST'S OFFICE

The LAO believes that the Administration's infrastructure plan provides a valuable starting point, but states that it is up to the Legislature to decide whether or not to incorporate future infrastructure plans into the policy making process.

The LAO recommends a long-term infrastructure planning and decision-making process to address the following questions related to infrastructure:

- What are the State's Long-Term Policy and Infrastructure goals?
- How should the State Prioritize Competing Infrastructure Needs?
- What needs must be addressed by the state?
- What are the ongoing costs associated with infrastructure decisions?

The LAO encourages the Legislature to engage with the Administration on the issue of infrastructure in order to help move the state towards a more holistic approach to infrastructure planning and decision-making.

The LAO believes that one way to encourage a more comprehensive approach to infrastructure would be to create an infrastructure committee that could consider important issues, including:

- Assessing the state's infrastructure data and creating legislation to improve data collection when necessary.
- Reviewing the administration's infrastructure plan and monitoring the state's progress in implementing the plan.
- Setting priorities for infrastructure spending across programs.
- Determining which local or other non-state programs should receive funding.
- Analyzing bond acts to ensure they fit within priorities, plans, and funding capabilities.

STAFF COMMENTS

New Approach to Plan. The Five-Year Infrastructure Plan outlined by the Administration differs from other plans in the past. In the past, plans have focused on need by identifying projects but not how to fund the need. This plan focuses on the available resources for projects and builds around available federal, special, bond, and other funds. The plan uses minimal General Fund revenues. The plan emphasizes maintaining the existing infrastructure assets versus building new projects, and examines how to utilize one-time funding to address deferred maintenance.

Planning Priorities. The infrastructure plan discusses how infrastructure investment decisions included in the plan tie to planning priorities established in AB 857 (Chapter 1016, Statutes of 2002). Those priorities focus on promoting equity, strengthening the economy, protecting the environment, and promoting public health and safety. In addition, climate change is identified as a priority to be considered when evaluating infrastructure decisions. However, while reviewing the plan, it appears that some agencies align very closely with the planning priorities, while other agencies do not. It questions whether the planning priorities are strong enough.

The subcommittee may want to discuss what should be prioritized for our infrastructure investments over the next five years.

Deferred Maintenance. The plan discusses deferred maintenance and the use of one-time monies to address the deferred maintenance needs. The focus on deferred maintenance is an important element of the Administration's plan. However, \$815 million is a small portion of the overall need. The subcommittee may wish to discuss with Finance how the Administration determined that this Plan would address the statewide deferred maintenance needs.

Additionally, the plan does not address how Finance determined which agencies would receive funding for deferred maintenance, and why those agencies would receive the specified amounts. The subcommittee may wish to request an explanation from Finance regarding their criteria.

Finally, Control Section 6.10 language refers to a process for how projects utilizing General Fund revenues will be reviewed, but is silent on deferred maintenance projects utilizing other revenue sources. The subcommittee may wish to discuss with Finance how the other deferred maintenance projects will be reviewed. The subcommittee may also wish to discuss whether the JLBC process is the best process for reviewing those projects.

Staff Recommendation: Have the Department of Finance report back to the Subcommittee on projects that are shovel ready by May 1, 2014.
