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“I say build it”: Governor Schwarzenegger’s Third State of the State Address

Governor Arnold Schwarzenegger gave his third State of the State address last night, and received a generally positive response for his tone, offers to compromise with Democratic opponents, and his commitment to build for the future of California. There was, however, a notable unease about his expansive plans for bonds.

Casual viewers of the Governor’s speech might think he proposed a \$222 billion bond package. No, as best we understand his proposals, here are the main elements:

- The package proposes bond-based spending spread over the next ten years, but the amount of “new” bonds will be “only” \$53 billion.
- The Governor assumes that the \$53 billion from “new” bonds, plus previously authorized bond spending, plus hoped-for matching funds from the federal government, will bring the total spending to \$222.6 billion.
- Yes, there is an assumption that a relatively small portion of the bonds will be paid for by imposition of a) a new local transportation sales tax, b) fees imposed on containers shipped to and from our ports, c) limited highway tolls, d) a statewide monthly fee on water customers and e) some kind of benefit assessment fee imposed on those who get flood protection funds in the Central Valley.

All this gets pretty complex, but we have included in this *California Budget Report* links to some supplemental documents issued by the Administration that you might want to check out. All links below are from the Governor’s website.

- ✓ The actual [State of the State Address](#)
- ✓ [Strategic Growth Plan Briefing Packet](#), a 23-page outline of the capital improvement proposals
- ✓ For those who want to see the detailed list of highway/road projects to be funded from this, take a look at the [Strategic Growth Plan Preliminary Working List of Proposed Transportation Projects](#)

The Governor's Strategic Growth Plan

The best way to start understanding the proposal is the summary chart from the Growth Plan Briefing Packet, appearing on p. 2 of that report.

Strategic Growth Plan Ten Year Financing (Dollars in Billions)

Program	First Five Years				
	Total	General Obligation and Lease Revenue Bonds		Existing Funding Sources**	New Funding Sources**
		GO	LR		
Transportation/Air Quality	\$42.0	\$6.0	-	\$25.0	\$11.0
K-12*	17.5	7.0	-	10.5	-
Higher Education*	5.4	5.4	-	-	-
Flood Control and Water Supply	11.0	3.0	-	8.0	-
Public Safety	8.1	2.6	0.4	5.1	-
Courts & Other Public Service Infrastructure	2.3	1.2	0.4	0.7	-
Totals - First Five Years	\$86.3	\$25.2	\$0.8	\$49.3	\$11.0
Program	Second Five Years				
	Total	General Obligation and Lease Revenue Bonds		Existing Funding Sources	New Funding Sources
		GO	LR		
Transportation/Air Quality	\$65.0	\$6.0	-	\$22.0	\$37.0
K-12*	30.7	19.3	-	11.4	-
Higher Education*	6.3	6.3	-	-	-
Flood Control and Water Supply	24.0	6.0	-	13.0	5.0
Public Safety	9.3	4.2	-	5.1	-
Courts	1.0	1.0	-	-	-
Totals - Second Five Years	\$136.3	\$42.8	-	\$51.5	\$42.0
GRAND TOTALS TEN YEARS	\$222.6	\$68.0	\$0.8	\$100.8	\$53.0

*K-12 and Higher Education will be combined in the bond proposals.

**Refer to Attachment 1 for details

How will the bonds be spread?

Voters will be expected to cast ballots every General Election cycle for the next 10 years (2006, 2008, 2010, 2012 and 2014). Here is the proposed allocation, by election cycle:

**General Obligation Bonds
Election Year Proposals
(Dollars in Billions)**

Program	2006	2008	2010	2012	2014	Ten-Year Totals
Transportation/Air Quality	\$6.0	\$6.0	-	-	-	\$12.0
Education*	12.4	4.2	\$7.7	\$8.7	\$5.0	38.0
Flood Control and Water Supply	3.0	-	6.0	-	-	9.0
Public Safety	2.6	-	4.2	-	-	6.8
Courts & Other Public Service Infrastructure	1.2	-	1.0	-	-	2.2
Total	\$25.2	\$10.2	\$18.9	\$8.7	\$5.0	\$68.0

* Education Bonds include K-12 and Higher Education.

Who won? Who lost?

We live in a political environment and it is inevitable that parties will be adding up the various proposals and trying to figure out who won, and who lost. Here is our tentative list:

Winners: schools, the transportation lobby, law enforcement/corrections, and flood control districts. However, we bet those who face fees under the Governor's plan are working hard already to get the state to drop that requirement.

Losers: environmentalists, hospitals and healthcare generally, affordable housing, just to name a few. They were not part of the package, and some expected to be in the mix.

Some questions to think about

1. If there are five General Elections in a row where voters will face, respectively, \$25 billion, \$10 billion, \$19 billion, \$9 billion and \$5 billion worth of bond measures, how will they respond? After all, at the same elections voters will also face a host of local or regional sales tax (for local transportation needs) and local government and school ballot measures to raise the "local match" required by these new state bonds. How much is too much?
2. If the Legislature and voters approve a constitutional limit on bond-debt of six percent, as proposed by the Governor, how does the state respond to new challenges and needs during the next ten years? Expect endless legislative tinkering with the working of this proposal (if they approve it at all).
3. What are these new "public-private partnerships" being proposed to fund infrastructure?
4. Will the interests excluded from these bonds (e.g., hospitals, environmental concerns, housing and healthcare generally) stop presenting their own ballot measures, and special taxes, to the voters? Obviously, the answer is no, but what happens when the total approved by the voters does exceed the proposed bond-debt limit?

5. What happens to the bond package if the Legislature (or voters) just say no to any fees or charges needed to finance bonds? Will the Governor oppose bonds unless they are paid for? We bet not, but stay tuned and see.
6. Will the Legislature and Governor really set aside General Fund money to pay for the increased debt service? If so, from what programs will they take money to pay the debt payments?

It is far too early to figure out just what all of this means. At a minimum, the Governor has achieved his goal of stating a major policy initiative, while claiming “no new taxes” are involved. In a re-election year, this is probably a better platform for him to run than the message of 2004 and 2005. We will stay in touch.

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