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The 2006 Bond Package

LAO Opines on Implementation and Oversight

The Legislative Analyst issued a detailed report on the implementation of 2006 bond package, recommending strong oversight and pointing out that these bonds and new ones proposed by Governor would move California beyond the 6 percent debt service ratio for first time. . . .

Hot off the press is the latest report of the Legislative Analyst on a very important budget-related question: how best to spend the bond money authorized by voters in November 2006.

You can find the full report at http://www.lao.ca.gov/2007/2006_bonds/2006_bonds_012207.pdf. We are still digesting the details, but here are some important overall points (charts are from this report):

- The voters authorized \$43 billion worth of bonds for schools, transportation, resources, housing, flood control and some miscellaneous other items. *By the time these 30-year bonds are paid off, the state will have paid \$84 billion in principal and interest!*
- There are 67 (yes, count them, 67) different spending pots given funds, or created by the various bonds. That means legislators will have the opportunity to tinker a lot with the details of new and existing programs. It also means that interested parties like the readers of this *California Budget Report*, are going to spend a lot of time trying to figure out how to increase their share of the pie through reasonable changes in existing law.

The chart below shows that about 40 percent of the total amount authorized goes into new programs; the remainder goes to existing programs.

Figure 3

**2006 Bond Package Funds
Existing and New Programs**

(Dollars in Billions)

	Number	Funding
Existing programs	46	\$24.5
New programs	21	18.2
Totals	67	\$42.7

- The LAO casually observes that some existing programs have almost \$5 billion in unspent authorization from prior bond issues. A rational person might think it odd to add more money to a pot that is spent slowly, but...
- The Governor proposes to spend about \$2.8 billion in 2006-07, another \$8.7 billion in 2007-08, and the remaining \$31.2 billion in future years. If history is a guide (see previous bullet point), you can expect money to be spent more slowly than projected. You can also expect the Legislature to modify the overall spending figures this year and next.

The chart explaining all of this is below.

Figure 4

**Governor's Proposed Spending Plan for
2006 Bond Package**

(In Millions)

Program	2006-07	2007-08	Future Years
Proposition 1B—Transportation			
Congestion reduction, highway and local road improvements	\$503	\$1,858	\$8,889
Transit	—	600	3,400
Goods movement and air quality	15	267	2,918
Safety and security	5	64	1,406
Proposition 1C—Housing			
Development programs	—	\$228	\$1,122
Homeownership programs	\$35	129	461
Multifamily housing programs	105	236	249
Other housing programs	20	67	198
Proposition 1D—Education			
K-12	\$985	\$2,142	\$4,202
Higher Education	1,056	1,359	672
Proposition 1E—Flood Control			
	—	\$624	\$3,466
Proposition 84—Resources			
Water quality	—	\$263	\$1,262
Protection of rivers, lakes, and streams	—	245	683
Flood control	—	276	524
Sustainable communities and climate change reduction	—	31	549
Protection of beaches, bays, and coastal waters	—	131	409
Parks and natural education facilities	—	25	475
Forest and wildlife conservation	\$60	119	271
Statewide water planning	—	15	50
Totals	\$2,784	\$8,679	\$31,206

- The Governor has also announced an additional bond proposal to go before voters in 2008, probably at the June Primary Election, which would add a big wad of additional spending authorization.

Figure 5

Approved and Proposed General Obligation Bonds

*2006 Through 2010
(In Billions)*

	Approved 2006	Proposed 2008 and 2010	Totals
Transportation	\$19.9	—	\$19.9
K-12 Education	7.3	\$11.6	18.9
Higher Education	3.1	11.5	14.6
Flood control and water	4.9	4.0	8.9
Resources	4.6	—	4.6
Housing	2.9	—	2.9
Courts and other	—	2.3	2.3
Totals	\$42.7	\$29.4	\$72.1

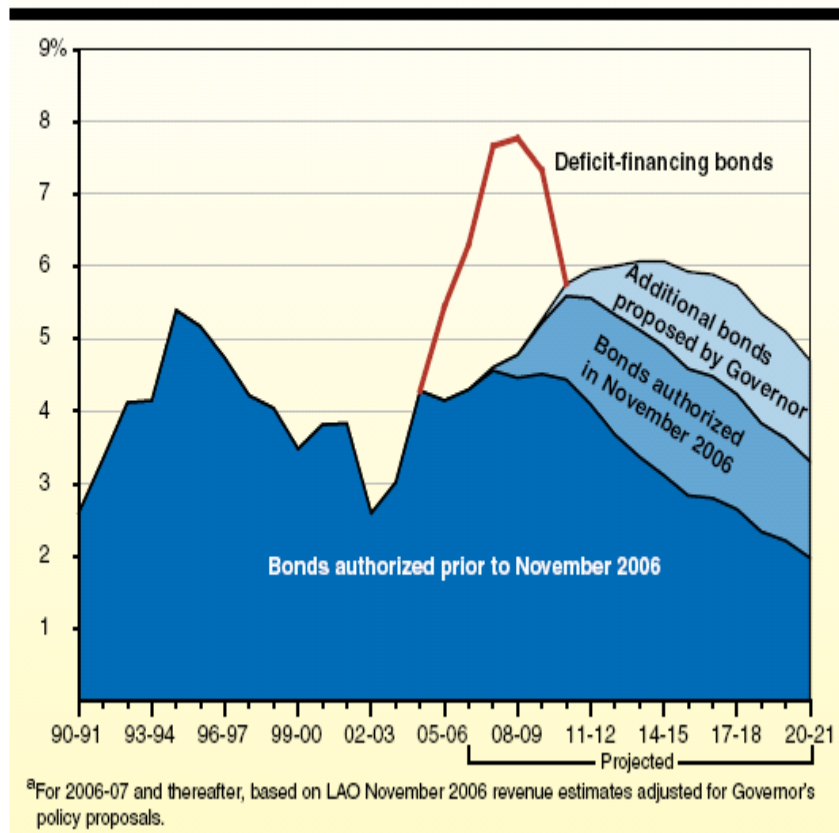
- The LAO has a wonderful chart showing a 30-year history of the bond debt ratio, stretching to 2021. We add this cogent comment from the LAO to put the bond-debt ratio history into context:

Although concerns have sometimes been voiced in the past about DSRs in excess of 5 per cent or 6 percent, there is no “right” level for the DSR. Rather, this depends on such things as a state’s preferences for infrastructure versus other priorities, and its overall budgetary condition. Some states, for example, have comparatively high DSRs but still experience favorable bond ratings. Examples include Maryland, New York, New Jersey, and Illinois.

From an affordability perspective, however, each additional dollar of debt service out of a given amount of revenues comes at the expense of a dollar that could be allocated to some other program area. Thus, the “affordability” of more bonds has to be considered not just in terms of their marketability and the DSR, but also whether their dollar amount of debt service can be accommodated on both a near- and long-term basis within the state budget. (As a rule of thumb, each \$1 billion of new bonds sold at 5 percent interest adds close to \$65 million annually to state debt-service costs for as long as 30 years.)

Figure 6

Historical and Projected Debt-Service Ratios^a



- The LAO adds the traditional recommendations of the Legislature using its authorizing authority to guarantee that the Administration is clear in its spending priorities and has a sound view of how to market these bonds. Finally, the LAO calls for strong oversight of bond spending.

There is one additional thing we should add. In our last *California Budget Report*, we noted that new Treasurer Bill Lockyer and new Controller John Chiang are already moving to create their own joint oversight body.

Final, final note: The rest of the LAO report includes discussion of each category of bond funding, plus some specific recommendations that are sure to be controversial. Take a look!

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