
CALIFORNIA BUDGET REPORT

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Everything You Ever Wanted to Know About Bond Financing!

...and more!

The Legislative Analyst presents a tidy summary plus two other reports of note...

Readers of *California Budget Report* know that we encourage you to learn a lot about budgets, financing and bonds. The last two issues were heavy on bond facts, and speculation. We are linking you to an excellent 12-page report from the LAO on bond financing. In many ways, it is the shorthand version of everything they have been saying for the past five years. It is a very impressive summary.

You can find the full report at the LAO web site, www.lao.ca.gov, or jump straight to the PDF format at http://www.lao.ca.gov/2007/bond_financing/bond_financing_020507.pdf. We leave you with a couple of juicy charts.

The current status of bonds in California

The chart below (page 6 of the report) makes some very telling points:

- At least \$25.2 billion worth of bonds for schools, transportation, health, stem cells, local government and resources remain to be sold—all from prior to the November 2006 election!
- The voters approved another \$42.7 billion of bonds in November 2006.
- The Governor is proposing an additional \$29.4 billion for the ballot in 2008 and 2010, covering K-12 education, higher education, flood control and water and the courts. This proposal, by the way, is not reflected in the referenced LAO report. To

see the details you have to look at our January 22, 2007, *California Budget Report* for the details. Reports are archived at our web site www.isenberg-oharen.com

- All this means California has over \$68 billion of currently authorized bonds, plus another \$29.4 billion proposed for the 2008 and 2010 ballots, plus \$11.9 billion of lease-revenue bonds for corrections and jails, which do not require voter approval. **That adds up to \$109.2 billion worth of capital expenditures.** A lot of money in anybody's estimate.
- No matter how fast everyone works, and no matter how many environmental laws are streamlined, it will take many years before the state can process the volume of bonds presently authorized.

Figure 3

**Summary of California General Obligation Bonds
By Program Area and Type**

*As of January 1, 2007
(In Billions)*

	Outstanding Debt	Unissued Bonds		
		Pre-November 2006 Authorizations	November 2006 Authorizations	Total Authorizations
Corrections	\$1.0	— ^a	—	—
Health	0.1	\$0.7	—	\$0.7
Higher Education	5.0	3.2	\$3.1	6.3
Housing	—	2.1	2.9	5.0
K-12 Education	23.2	8.6	7.3	16.0
Local Government ^b	0.1	0.2	—	0.2
Resources and Flood Control	4.9	6.8	9.5	16.3
State Administration	0.2	0.2	—	0.2
Stem Cells	—	3.0	—	3.0
Transportation	3.2	0.4	19.9	20.3
Total, General Obligation Bonds	\$37.7	\$25.2	\$42.7	\$67.9

Source: California State Treasurer

^a \$10 million in unissued bonds.

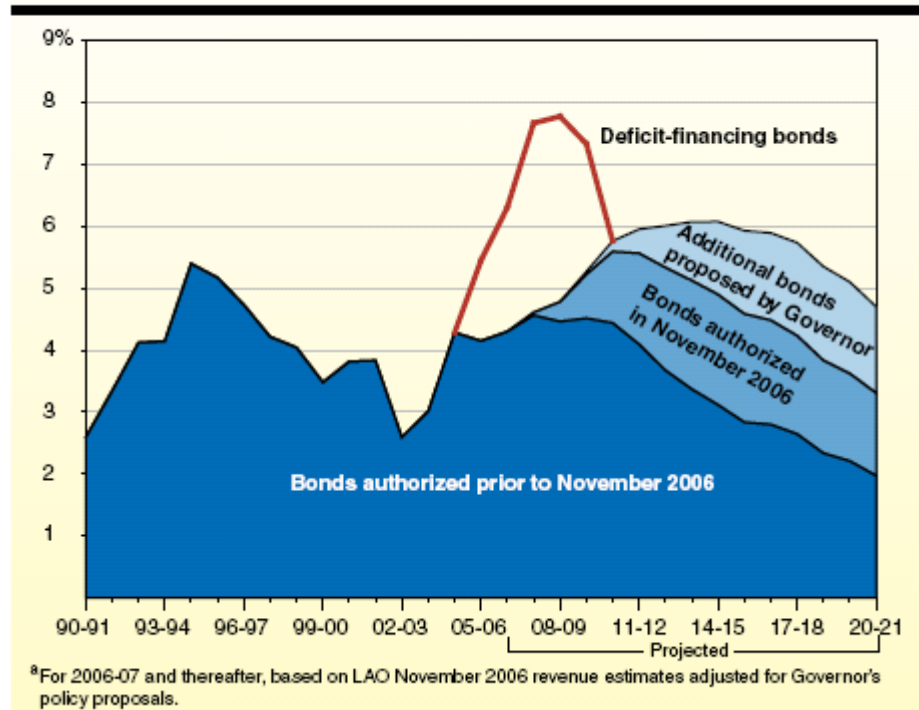
^b Includes bonds for reading and literacy improvement and library construction.

Detail may not add due to rounding.

Finally, we show you the state debt-ratio chart, just to pound in the message. This is the same publication we sent out in the last *Budget Report*, and it clearly indicates the increased borrowing that is California's answer to the problem of how to spend money you don't raise with taxes.

Figure 6

Historical and Projected Debt-Service Ratios^a



Note: We strongly recommend you look at two other new LAO reports which relate to the budget, but also have much to say about modern California.

California's Criminal Justice System: A Primer, can be found at

http://www.lao.ca.gov/2007/cj_primer/cj_primer_013107.pdf. This gives you the basic background information and context for any discussion of criminal justice in California. Remember the following points:

1. State officials are facing a growing prison population, with little voter or legislative interest in building new prisons nor desire to release prisoners early.
2. The Governor is demanding new bonds in 2008 to build prisons and jails.
3. The U.S. District Court has appointed a federal receiver for the state prison medical care system, and he is beginning to order major new spending programs for the prisons, which may run to almost \$1 billion a year.
4. Any plan for expansion of health care is based, in part, on the assumption that the cost of the prison system will decline in coming years.
5. It is hard for some ideologues of the right or the left to acknowledge that crime and punishment is as complex a problem as it is. Take a look at the chart on page 19 showing the trend of reported crimes over 45 years. We think this cuts against conventional political wisdom by the left and right.

California Travels: Financing our Transportation, is another stellar report by the LAO, putting all the new transportation spending into context. You can get the full report at http://www.lao.ca.gov/2007/ca_travels/ca_travels_012607.pdf, and even social service advocates could read and benefit from this report.

Learn how a collection of power interests (local communities, the car-driving public, builders, labor unions and transportation advocates) have constructed a complex but well-funded transportation system in California. Understand how resistance to any new taxes or fees (include gasoline taxes), has pushed more and more of transportation spending on the state General Fund. Think about what it means for higher education, corrections, health care and general government when the big gorilla of transportation competes with others for a declining pot of money.

The California Budget Report is produced by Phil Isenberg and Maureen O'Haren of ISENBERG/O'HAREN. Questions, comments and requests to be added to the mailing list should be directed to Phil at phil@isenberg-oharen.com or Maureen at maureen@isenberg-oharen.com

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