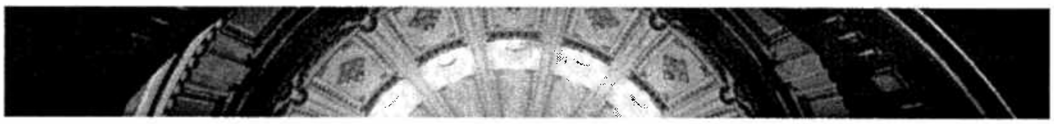

Governor's Budget Summary 2008-09

Arnold Schwarzenegger, Governor

State of California

To the California Legislature

Regular Session, 2007-08

2008-09 Budget Summary

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INTRODUCTION

This budget proposes the difficult but necessary steps needed to bring the state's chronic structural deficit under control, not only for this fiscal year but permanently. This is accomplished by (1) imposing strict spending restraint in the current and budget years while protecting and preserving essential state services and (2) proposing a Constitutional Amendment to reform the budget process so that state government has the tools needed to avoid spending more than it has in the future.

ORIGIN OF THE STRUCTURAL DEFICIT

For the last three decades the state's budget has swung in and out of balance. The enactment of Proposition 13 in 1978 dramatically reduced local property tax revenues, resulting in equally dramatic increases in the state's fiscal obligations to programs formerly financed mainly by local government, such as schools, social services, health and mental health care and law enforcement. This set off a round of recalibrations of the state budget during periods of strong economic growth punctuated by several recessions. By 1998, however, the state's fiscal house appeared to be in good order. Long-term projections showed spending in line with revenue for years to come.

Between 1998-99 and 1999-2000, however, revenues jumped 23 percent due to a stock market and dot-com boom that drove unprecedented increases in stock option and capital gains income. These were magnified from a state revenue perspective because the state's income tax system relies disproportionately on the very high-end earners most likely to receive such gains. In 2005, California taxpayers with incomes over $119,000, who constituted 10 percent of all taxpayers, paid 78.3 percent of the personal income tax.

The structural deficit was created when the state added new, permanent spending increases that relied on these one-time revenue gains. In addition to major new commitments, costs in many state programs have been driven up by spending formulas, caseload and population growth, wage and provider rate increases and court orders. Figure INT-01 displays the major components of General Fund spending growth since 1998. Specifically, it compares the General Fund workload budget for 2008-09 to actual spending in 1998-99. The workload budget is what it would cost the state to operate government in 2008-09 in the absence of any changes in law or policy to restrain spending growth.

Figure INT-01

Major General Fund Spending Growth Since 1998-99

(Dollars in Millions)

	1998-99 Actual	2008-09 Workload Budget	Average Annual Percentage Growth
Proposition 98–K-14 Education	($24,672)	($44,418)	(6.1%)
Base Program	$24,672	$38,271	4.5%
VLF Tax Cut Impact	0	6,147	NA
Medi-Cal	7,471	14,798	7.1%
In-Home Support Services	530	1,758	12.7%
Developmental Services	714	3,002	15.5%
Healthy Families	16	432	39.4%
Other Health and Human Services	7,332	11,864	4.9%
Corrections and Rehabilitation	4,547	10,503	8.7%
Debt Service, Lease Payments, and Revenue Anticipation Notes Interest Costs	1,974	4,890	9.5%
Proposition 42	0	1,485	NA
Courts	907	2,467	10.5%
Higher Education (excluding Community Colleges)	5,142	7,001	3.1%
Contribution to State Teachers Retirement System	293	1,279	15.9%
Proposition 58 Transfers to Retire Economic Recovery Bonds	0	1,509	NA
Health and Dental Benefits for Retirees	310	1,263	15.1%
Other	3,918	5,092	2.7%
Total	**$57,827**	**$111,761**	**6.8%**

The Fiscal Crisis of 2003-04 and the Workout Plan of 2004-05

When the revenue boom of 2000 turned to bust in the recession of 2001, the higher rates of state spending enacted during the boom years resulted in one of the worst deficits in the state's history. In response, the budget of 2003-04 borrowed money to cover the deficit of the prior year and closed the budget gap with over $5 billion in one-time solutions, leaving the state facing a $14 billion budget gap in the subsequent year.

The Governor's Budget for 2004-05 proposed a workout plan for the state's budget by proposing to refinance the borrowing begun in the previous year and restrain spending growth, thus buying time for normal revenue growth to catch up with spending demands and bring the state back to long-term fiscal balance. Had this plan been fully implemented, the state would not have a structural deficit today.

However, the plan was never fully implemented. Shortly after the workout plan was proposed, state General Fund revenues experienced another unanticipated growth spurt. The unanticipated revenues built a large reserve, which made it possible to balance the budgets for 2005-06 and 2006-07 without making major program reductions. Given the improved revenue picture and the difficulty of the choices that would have had to have been made to restrain spending growth rates in the long term, the Legislature declined to enact the statutory changes necessary to slow overall spending. In other words, the most important element of the workout plan – spending restraint – was never put in place.

While revenue growth slowed somewhat in 2006-07, spending continued to grow. This was not because of any major new commitment, but because not enough had been done to change the underlying statutory programs that were driving spending increases. While 2005-06 and 2006-07 budgets were enacted with a prudent reserve, the structural deficit remained. Our projections in both of those years showed that the deficit would re-emerge in 2007-08.

Reforming the Budget Process, the Budget Stabilization Act

The state's budget history shows that there are two shortcomings in the budget process that have led to recurring budget deficits. First, the state tends to spend all the money it takes in during years of high revenue growth or when it has a large available reserve. Thus, high-growth years lead to unsustainable levels of spending for the long run.

Second, the state has not been able to slow spending growth fast enough to bring it back in line with a realistic projection of future revenues.

In order to address these two problems and restore the state to long-term balance, the Governor's Budget proposes the Budget Stabilization Act, a Constitutional Amendment to reform the state budget process. The reform would prevent over-budgeting based on extraordinary revenue gains and give the state the tools it needs to quickly reduce spending when necessary to avoid a deficit.

AVOIDING OVER-BUDGETING BASED ON EXTRAORDINARY REVENUE GAINS

In order to prevent reliance on unsustainably high revenue gains, the Budget Stabilization Act will require that excess revenues – revenues above a reasonable, long-term average rate of growth—be deposited in the Revenue Stabilization Fund. In years of below-average rates of revenue growth, monies will be transferred from the Revenue Stabilization Fund back into the General Fund in an amount not to exceed the shortfall. When the Revenue Stabilization Fund exceeds an amount equivalent to 10 percent of General Fund revenues in a given year, the excess will be available for one-time spending for schools (in proportion to the Proposition 98 share of total General Fund revenues) and providing one-time tax rebates, investing in one-time infrastructure projects, or paying off debt.

The Act allows transfers from the Revenue Stabilization Fund back into the General Fund only in years when revenue grows at a rate less than the long-term average. Transfers would NOT be allowed simply to avoid deficits, not even in emergencies. The state already has mechanisms for addressing emergencies, including the ability to temporarily raise taxes with a two-thirds vote of the Legislature.

GIVING THE STATE THE TOOLS TO QUICKLY REDUCE SPENDING WHEN NECESSARY

To ensure that the state quickly reduces spending to sustainable levels, the Budget Stabilization Act will provide for automatic reductions. These reductions will be triggered whenever the Governor projects that the state will be in deficit. The Governor will be required to estimate the year-end balance in the General Fund three times each year – in November, January and May. When this estimate shows a likely General Fund deficit of one percent or less, the Governor will reduce appropriations, on an annualized basis, by 2 percent and when it shows a deficit of greater than one percent of appropriations will be reduced by 5 percent. Given the difficulty of achieving actual savings during the fiscal year, the reductions will be pro-rated for the amount of time remaining in the year.

The Act will also require the Legislature and the Governor to enact statutory changes in all state entitlement programs that allow for reductions in service levels or rates of payment sufficient to achieve the targeted reductions of 2 and 5 percent. In order to ensure that a full year of savings is achieved by these program reductions, they will remain in effect, once triggered by a projected deficit in a particular year, not only for the remainder of that year, but until the Legislature takes a subsequent action, either in the next Budget Act or in separate legislation to restore the prior levels of service. In the event that the Legislature fails to enact a schedule of program reductions in a given program, or if the reductions authorized by the Legislature are insufficient to achieve the required annualized savings goals, the Governor will be authorized to waive any state law or regulation necessary to achieve the full amounts of the reductions.

Not all state appropriations could be reduced under the Act. For example, debt service will not be subject to reduction. To ensure that reductions are not inconsistent with the United States or California Constitutions, the Governor will be required to exempt appropriations from reduction if the reduction would be constitutionally unenforceable.

The Budget Stabilization Act will not change any vote threshold. Tax increases, urgency measures and most General Fund appropriations will still have to be enacted by two-thirds majorities in both houses of the Legislature.

The State Faces a $14.5 Billion Deficit in 2008-09

The Budget Act of 2007 projected a reserve of $4.1 billion, the largest planned reserve in the state's history. It also showed that the deficit would re-emerge next year with spending exceeding revenues by $6.1 billion.

Since those projections were made, the budget situation has deteriorated dramatically. Figure INT-02 displays the major changes that have resulted in a projected shortfall of $14.5 billion by the end of 2008-09, in the absence of any changes to state law or policy to reduce spending.

Figure INT-02
$14.5 Billion General Fund Deficit
Workload Budget [1/]
(Dollars in Billions)

	2007-08	2008-09
2007 Budget Act Reserve	**$4.1**	
Changes in Beginning Balance/ Carryover from 2007-08	-0.5	**-$3.3**
2007-08 Operating Deficit		**-$6.7** [2/]
Major Revenues Decrease/Increase (-/+)	-4.2	4.6
Other Revenues	-0.7	-1.4
Expenditure Increases:		
Proposition 98	-0.6	-2.3
All Others	-1.4	-5.4
2008-09 Operating Deficit		**-$11.2**
2008-09 Governor's Budget Workload Budget Deficit	**-$3.3**	**-$14.5**
Operating Deficit	**-$6.7** [2/]	

[1/] Workload budget reflects the projected costs of state government if no corrective actions are taken.

[2/] The operating deficit for 2007-08 reflects spending more in that year than the revenues collected that year. This operating deficit carries forward into 2008-09 and is increased by projected spending increases partially offset by revenue increases.

Achieving Balance in 2007-08 and 2008-09

If the Budget Stabilization Act had been in effect since 1998, the state would not have developed a structural budget deficit. It is possible, even likely, that there would be some deficit in years such as this one. However, in that event the Act would have triggered automatic reductions in spending early in the year. Because such mid-year reductions do not usually achieve a full year's worth of savings, under the provisions of the Act, they would remain in effect into the subsequent year, or until superseded by a new budget or other statutory change enacted by the Legislature.

The Budget proposes a very similar approach to achieving balance this year and next. Specifically, the Budget proposes numerous statutory changes to reduce spending to take effect by March 1, 2008. In order to achieve this ambitious timeline and to avoid a

PROPOSITION 58

Proposition 58 was approved by the voters in 2004. It requires the Legislature to enact a balanced budget and it authorizes the Governor to declare a fiscal emergency and call a special session of the Legislature to address it when a significant budget shortfall looms. The Governor declared such an emergency this year. The measures he is proposing to address the emergency are described below. Under the Proposition, the Legislature has 45 days to act on these measures or they are prevented from acting on other bills or adjourning.

current-year cash shortfall, the Governor has declared a fiscal emergency and called a special session pursuant to Proposition 58 (see textbox for background).

In addition to the ten-percent reductions, the budget also proposes to sell the $3.3 billion of authorized Economic Recovery Bonds (ERB's) and to suspend the pre-payment of ERBs scheduled for 2008-09. Figure INT-03 summarizes the major changes proposed to balance the budget.

Figure INT-03

How We Closed the Budget Gap

(Dollars in Millions)

	2007-08	2008-09
Workload Reserve	-$3,318	-$14,479
Impact of 2007-08 Solutions on 2008-09 Beginning Reserve		4,190
10-Percent Reductions	217	9,132
Sell Economic Recovery Bonds	3,313	
Proposition 58 Suspension		1,509
Reduce Proposition 98 Overappropriation	400	
Other Special Session Reductions	200	96
Accrual of June Personal Income Tax and Corporate Tax		2,001
Franchise Tax Board and Board of Equalization collection and enforcement enhancements	60	329
Reserve at Governor's Budget	**$872**	**$2,778**

THE CALIFORNIA STRATEGIC GROWTH PLAN

In January 2006, an ambitious rebuilding of California was launched with the Strategic Growth Plan (SGP), which was designed to restore and maintain our roads, schools, ports, and water supply. By investing and leveraging billions of dollars in the state's infrastructure over the next 20 years, California can maintain its economic sustainability and high quality of life. In November 2006, the voters approved the first installment of that 20-year vision to rebuild California. Then, in 2007, the Legislature authorized $7.7 billion in lease-revenue bond authority for the California Department of Corrections to address prisons and jail overcrowding, and to improve the delivery of mental, dental, and medical services within the correctional system.

Much progress will be made with these initial funding pieces. Work on dozens of critical levee improvements is already underway, thousands of new and renovated classrooms will be built throughout the state, and transportation construction projects will begin to reduce congestion of goods and traffic. Homes for those who could not previously afford them will be available and our state's universities and colleges are expanding to meet the continued growth in enrollment.

However, additional investments over the next ten years in the state's infrastructure are still needed if California is to maintain and improve its highly valued quality of life and continue its economic growth. Many programs are still in need of funding, partnerships with the private sector should be leveraged, and a more coordinated effort of state agencies to promote sustainability and collaboration is needed. To address these critical gaps that remain in California's infrastructure, the Administration proposes the following:

- The creation of a Strategic Growth Council to coordinate the activities of state agencies to promote sustainability and to coordinate the investment of funds in state-owned and state-funded infrastructure so that those investments can have years of lasting benefits.
- The establishment of Performance Based Infrastructure (PBI) California to provide a center of excellence of specialized experts for the delivery of PBI. This expertise will be used in a manner that will allow projects to be delivered in an innovative yet efficient manner and to ensure those projects are built to achieve the greatest life cycle benefits.
- Legislation to place a bond before the voters to expand the state's water supply and management systems to meet the needs of population growth and manage the effects of climate change on California's hydrology and water delivery systems for decades.
- Legislation to place a bond before the voters to continue funding of the state's K-12 schools beyond the three years of financing provided by the current bonds to prepare for enrollment growth, reduce overcrowding, and repair dilapidated classrooms in compliance with the settlement agreement in *Williams v. State of California*.
- Legislation to place a bond before the voters to continue funding of the state's higher education systems beyond the two years of financing provided by the current bonds to prepare for future enrollment growth and maintain their world renowned research capabilities. The bond measure proposes to provide an additional $50 million per year above the compact level for University of California and California State University.
- Modifications to the Safe, Reliable High-Speed Passenger Train Bond Act for the 21st Century, currently scheduled for November 2008 ballot to ensure that appropriate financing is available to begin building the project.
- Legislation to place a bond before the voters to expand and repair the infrastructure for California's court system to address significant caseload increases and reduce delays.

As reflected in Figure INF-01, $48.1 billion of new general obligation bonds are proposed to augment the existing funds for the SGP through 2016. The SGP proposes that the new general obligation bonds be placed on the ballot in the 2008 and 2010 general elections and that all bonds be issued and spent over the next ten years in a manner that maintains a prudent debt ratio.

Figure INF-01
Strategic Growth Plan
2006-2016
Election Year Proposals
General Obligation Bonds
(Dollars in Billions)

	2008	2010	2012	2014	Totals
Program					
Education-K-12	$6.4	$5.2			$11.6
Education-Higher Ed	7.7	4.6			12.3
Water	11.9				11.9
High Speed Rail	10.0				10.0
Judiciary	2.0				2.0
Other Public Service Infrastructure	0.3				0.3
Total	**$38.3**	**$9.8**	**$0.0**	**$0.0**	**$48.1**

Strategic Growth Coordination and Sustainability

It is increasingly apparent that many of the statewide challenges, from greenhouse gas reduction to congestion relief, from flood protection to affordable housing, include a strong land use and resource planning component as part of the solution. In addition, the majority of bond funds recently approved by the people of California have either a direct or indirect relation to land use and resource planning through infrastructure development. The current challenge facing state agencies involved in resource management or infrastructure development is to meet the above goals and achieve the high level of accountability that the public expects, whether they are distributing bond resources or just carrying out routine statutory functions.

There is growing awareness among state agencies and departments that they cannot meet the challenges facing them if they continue to operate in isolation: the challenges are too great and the solutions are too multi-dimensional to address without a coordinated effort. The state has little direct say in land use planning, since it is a local government activity, but by coordinating infrastructure bond expenditures, grant monies, and state planning and development activities, state agencies can provide leadership and guidance so that those investments of funds supply benefits that last decades. While these efforts will be undertaken over the next many years, by doing so, this Administration can accomplish more for less.

Therefore, the creation of the Strategic Growth Council (Council) is proposed to coordinate the activities of state agencies to promote environmental sustainability, economic prosperity, and quality of life for all residents of California. The Council would perform the following tasks:

- Coordinate the activities of state agencies to best improve air and water quality, improve natural resource protection, increase the availability of affordable housing, improve transportation, meet the goals of AB 32, and encourage sustainable land use.
- Recommend policies to the state agencies and the Legislature that will encourage the development of sustainable communities consistent with the intent of Proposition 84. Manage and award grants and loans of funds provided in Proposition 84 to support planning and sustainable communities.
- Collect, manage, and provide data and information to local governments that will assist local governments in developing and planning sustainable communities.

Providing Performance Based Infrastructure (PBI)

Over the last few years a number of nations have been turning to the private sector to help deliver an increasing number of infrastructure projects. By partnering with the private sector, these governments can harness the advantages of technology knowledge, management efficiencies and entrepreneurial spirit with the social responsibility, environmental awareness and job generation concerns of the public sector to leverage and build infrastructure. This partnering approach results in a shared responsibility for the delivery of infrastructure and also when appropriate and cost effective, the service of maintaining and managing those assets. The results are lower initial costs, lower life cycle costs, faster delivery, better service or lower risk and importantly improved customer satisfaction.

Nations such as the United Kingdom (UK), France, Australia, and Canada are all utilizing these partnerships. The UK has procured 221 primary, secondary schools and colleges, 181 hospitals, 62 transportation projects, 36 government buildings, 16 prisons, 9 court facilities and numerous other facilities in this manner. France's highway program and High Speed Train (worth an estimated $58 billion) have been realized because of these partnerships. Australia has built schools, prisons, courthouses, power stations and hospitals using this method. In two short years Ontario, Canada has procured 47 major projects and since 2005 British Columbia has procured nearly $5 billion in projects.

In the United States, the federal government has provided more than $25 billion of high quality military housing at Camp Pendleton and other bases using PBI, leading to higher tenant satisfaction and lower costs. The City of Miami recently approved a new tunnel using PBI to speed goods movement, reduce congestion and improve the environment, and the State of Missouri is in the process of employing PBI for the widespread rehabilitation/replacement of 802 bridges.

While this trend of procurement is still new and growing, governments are consistently reporting successes and benefits in terms of construction savings, faster delivery times and reduced operating costs.

Given the opportunities California has over the next ten years to invest billions of bond funds into our own communities, assurances should be made so that all available means of project delivery, including this partnership approach, are available to our state and local governments including accountability measures to maximize public benefit and service. Not all projects can benefit from this delivery method so to that end, PBI projects will only be undertaken if they can add value or reduce costs.

Broad authorization is proposed for state and local governments in California to use these partnerships for the planning, design, development, finance, construction, reconstruction, rehabilitation, improvement, financing, operation or maintenance of their infrastructure needs. Since all levels of California governments do not have the expertise to undertake this type of procurements, *PBI California* is proposed to be established to assist in the effort to achieve the best financing, procurement, risk allocation, delivery, operation and maintenance of private partnerships in a performance based approach.

PBI California will provide expertise to manage and implement public-private partnerships and provide the ability for the leveraging of resources and to generate economies of scale. PBI California would contract with governmental entities (local and state) to provide advice on how to enter into, and receive favorable terms from public-private partnerships and act as a repository of knowledge, understanding, expertise, and practical experience in relation to these partnerships. Partnering with the private sector will only be undertaken on those projects that can demonstrate a benefit in terms of cost, delivery time or long-term operational costs.

Flood Control and Water Supply

As a result of the Governor's emergency declaration for California's levee system in February 2006 and funding provided by the Legislature in the 2006 Budget, key repairs to 33 critical erosion sites protecting Central Valley communities were completed in record time. The state is now advancing funds and working with the federal government to repair 71 additional levee erosion sites damaged in the floods of 2006. An unprecedented effort to evaluate 350 miles of urban levees and 1,250 miles of non-urban levees for hidden defects has begun, and the state is leading a coordinated effort involving federal and local agencies to avoid a major flood disaster in California.

In 2005, the Administration published the California Water Plan Update, which called for implementation of two initiatives to ensure reliable water supplies: integrated regional water management and improved statewide water management systems. In January 2005, eight months before Hurricane Katrina flooded New Orleans, the Department of Water Resources published Flood Warnings: Responding to California's Flood Crisis, calling for a variety of flood management improvements and reforms to reduce the potential for such disasters in California. In 2006, the Administration published Progress on Incorporating Climate Change Into Management of California's Water Resources, the first detailed analysis of the effects that climate change is expected to have on water and flood management in the state.

The infrastructure package approved by the voters in November 2006 includes $4.59 billion for levee repair and flood management (Proposition 1E) and approximately $1.5 billion for integrated regional water management including wastewater recycling, groundwater storage, conservation, and other water management actions (Proposition 84). Together, these investments will provide substantial funding to address California's flood challenges for years to come.

However, two critical areas remain unaddressed that are vital to ensuring California has reliable water supplies to cope with the effects that climate change will have on water supply and flood protection: storage and conveyance. None of this will happen overnight and will take many years to accomplish which is why it is necessary that this begin now.

Over the next ten years, California must expand its water management and delivery system, including surface storage, groundwater storage and conveyance facilities. In this phase of the Strategic Growth Plan, the Administration proposes a total of $11.9 billion general obligation bonds that will provide benefits in water supplies for decades. The proposal consists of the following parts:

- Water Storage—$ 3.5 billion. This funding will be dedicated to the development of additional storage, which, when combined with the Regional Water Management investments of Proposition 84 and the flood system improvements of Proposition 1E, will help to offset the climate change impacts of reduced snow pack and higher flood flows. Eligible projects for this funding include the three most likely locations for surface storage in the state, Sites, Temperance Flat and Los Vaqueros reservoirs, as well as groundwater storage, reservoir re-operation, and regional storage projects that provide benefits to the state. In addition to this increased water supply, the projects will provide other benefits, such as enhanced flood management capability, improved Delta water quality, and improved wildlife habitat. The costs of new water storage would be shared between state taxpayers and non-state water suppliers. The state would provide up to 50 percent of total costs, funded by general obligation bonds. The state's investment reflects the statewide benefits of flood control, ecosystem restoration, and water quality improvement. The non-state costs would be funded by the water suppliers who would benefit from the new storage.

- Delta Sustainability—$2.4 billion. Leveraging anticipated federal and local funding sources, this funding will be dedicated to implementing a resource management plan for the Delta consistent with the Bay Delta Conservation Plan currently in development and the findings of the Delta Blue Ribbon Task Force. To assure the reliability of the state's major water supply systems, investments will be made in improving water conveyance, water quality, the Delta ecosystem, and Delta levees. These investments will reduce the seismic risk to water supplies derived from the Delta, protect drinking water quality and reduce conflict between water management and environmental protection.

- Water Resources Stewardship—$1.1 billion. This funding will support implementation of Klamath River restoration, provide for elements of Salton Sea restoration identified in the Salton Sea Restoration Act and related legislation enacted in 2003, contribute to restoration actions on the San Joaquin River, and supplement successful restoration projects on the Sacramento River and its tributaries as well as in the Delta.

- Water Conservation—$3.1 billion. This funding will augment $1 billion in funding provided by Proposition 84 and support the Integrated Regional Water Management (IRWM) program. IRWM is designed to encourage integrated regional strategies for management of water resources that will protect communities from drought, protect and improve water quality, and improve local water security by reducing dependence on imported water. The proposed funding will provide targeted water conservation grants to local communities that coordinate the planning of their shared water resources. These investments in water conservation will increase water use efficiency and protect water quality, and will reduce energy use, urban and agricultural runoff, and urban effluent.

- Water Quality Improvement—$1.1 billion. This funding will support efforts to reduce the contamination of groundwater used for drinking water supplies, assist local community wastewater treatment projects, provide grants for stormwater management projects, and help the Ocean Protection Council protect and improve water quality in areas of special biological significance.
- Other Critical Water Projects—$700 million. This funding will provide $250 million for grants and loans for water recycling projects to enhance regional water self-sufficiency. In addition, this funding will provide $150 million to restore hillsides and other areas devastated by fire and to prevent future watershed damage from wildfires. Lastly, the funding will provide $300 million to remove fish barriers on key rivers and streams, including removal of obsolete dams.

K-12 Education

K-12 schools will experience net increases in student enrollment of approximately 42,000 students by 2015-16. While some schools are experiencing declining enrollments, many other high-growth areas lack the schools necessary to accommodate increased enrollment. Some large declining enrollment districts have very overcrowded sites requiring new construction to adequately house students. Most notably, in order to meet the requirements of the Williams settlement, the Los Angeles Unified School District, along with any other remaining school districts, must relieve the most critically overcrowded schools (also know as "Concept 6" schools) by 2012. Thus, the need for new schools will continue to exceed net student growth projected during this period. As our system of approximately 9,600 school sites continues to age, the need for modernization assistance to keep classrooms modern continues during this period. Finally, because our primary and secondary school system helps develop tomorrow's workforce, it is important to both ensure facilities for charter schools to stimulate innovation and for Career Technical Education to ensure all students have the opportunity to participate in the high skill technical jobs that will fuel the economy of the future. Because Career Technical Education (CTE) has languished in the public school system for many years and the demand for charter schools is growing, the SGP continues the emphasis on assisting schools in meeting these special facility needs.

Total K-12 Program Proposes $11.6 Billion

The SGP proposes $11.6 billion of additional general obligation bonds to provide state bond funding for schools into 2012-13. The $11.6 billion is proposed to be split between the 2008 and 2010 elections. This total amount of funding, when combined with the $7.3 billion contained in Proposition 1D, approved by the voters in November of 2006, is estimated to provide for approximately 39,000 new classrooms to house approximately 1 million students and almost 60,000 renovated classrooms providing state-of-the-art facilities for over 1.5 million students.

2006 Bond Provided $7.3 Billion

Proposition 1D, designed to meet modernization needs through 2010-11 and other school facility program needs through 2008-09, will provide approximately 10,300 new classrooms housing almost 260,000 students and approximately 46,700 renovated classrooms to serve 1.2 million students through the following components:

- New Construction—$1.9 billion
- Modernization—$3.3 billion
- Charter Schools—$500 million
- Career Technical Education—$500 million
- Overcrowding relief in certain districts—$1 billion
- Incentives to meet high performance school design standards—$100 million
- Joint use facilities—$29 million

Of the amounts for new construction and modernization above, up to $200 million is available for the Small High School Program and up to $200 million is available for seismic safety projects. However, there has been minimal participation in the Small High School Program, with only one application approved for this program to date. Therefore, the Administration will explore options to address the impediments for district participation in this program.

Charter School Facility Program Changes

Although charter schools have been provided access to almost $900 million in bond funds beginning with Proposition 47 in 2002 and continuing through Proposition 55 and Proposition 1D in 2006, there are significant barriers in the existing Charter School Facility Program that have prevented charters from being able to use these bond funds to construct new facilities or renovate existing buildings to serve charter school facilities needs. The Administration will work to remove these barriers and provide a climate for innovation to accommodate the needs of charter schools.

2008 Education Bond Measure Proposes $6.43 Billion for K-12

The next bond measure, proposed for the 2008 election cycle, is estimated to fund construction through 2010-11 and provide approximately 18,300 new classrooms housing approximately 472,000 students and over 400 renovated classrooms providing state-of-the-art capacity for approximately 10,700 students. The bonds are proposed to be allocated as follows:

- New Construction—$4.430 billion to assist high-growth school districts that are projected to have increases in enrollment through 2010-11. This amount is predicated on grant reductions calculated to revise the traditional 50 percent state / 50 percent local cost-sharing ratio to 40 percent state / 60 percent local. This amount assumes the state's assistance for acquisition of sites will be restricted to a participation level assuming 150 percent of current site density planning standards.
    - Chapter 691, Statutes of 2007 (AB 1014) alters the calculation methodology for determining school district eligibility for new construction funding by allowing districts to submit 10-year enrollment projections and utilize modified weighting mechanisms, birth rates, and residency data. The fiscal effect this bill may have on new construction eligibility is unclear due to uncertainty as to how many districts will utilize the new methods. However, the changes authorized by this bill could result in hundreds of millions of dollars in additional new construction eligibility, which will create pressure on current and future bond funds beyond the $11.6 billion proposed in the SGP.
- Modernization—Last year, a total of $1.539 billion to address rehabilitation needs was proposed in the SGP for buildings that are over 20 to 25 years old, in recognition that teaching techniques, building codes, and technology have changed over time. However, due to less-than-anticipated modernization apportionments over the past year and changes in projected funding allocations, we are not proposing any additional modernization funds until the 2010 bond measure.

- Charter School—$1 billion to provide dedicated funding for charter schools as a part of addressing the educational needs of K-12 students and housing enrollment growth. Charter schools provide an added dimension to parental choices in ensuring an appropriate environment for their child's education. These funds are predicated on a 50 percent state / 50 percent local sharing ratio because Charters do not have the ability to levy local bonds. Instead, state bond funds are used to advance the local share and are paid back with operating or other revenue over time.

- Career Technical Education Facilities—$1 billion to provide a dedicated fund source for matching grants to provide state-of-the-art technical education facilities to ensure our comprehensive high schools can provide the cutting-edge skills essential to the high-wage technical sectors of our state economy. These funds are predicated on a 50-percent state / 50-percent local sharing ratio to provide added incentive to build these high cost classrooms.

2010 Bond Measure Proposes $5.17 Billion for K-12

The revised plan proposes a subsequent bond measure for K-12 schools in 2010 to address needs extending into 2012-13. This increment will provide for the same purposes as the 2008 bond and is predicated on continuation of the cost containment measures described previously. This level of funding is estimated to provide almost 10,400 new classrooms serving 268,000 students and almost 12,700 renovated classrooms serving about 328,000 students.

- New Construction—$2.335 billion
- Modernization—$835 million
- Charter Schools—$1 billion
- Career Technical Education Facilities—$1 billion

Needs Beyond 2012-13

Competing statewide infrastructure needs make current funding policies for K-12 school construction unsustainable within a prudent debt service ratio. While the proposed SGP provides state general obligation bond assistance for funding the needs into 2012-13, assuming specified state cost containment measures, it will be necessary for schools to plan for additional bond measures and alternative financing strategies for financially troubled districts to ensure every student is housed in an appropriate classroom. Finally, the Administration proposes to review the overall financing structure for schools, including consideration of public-private partnerships, to ensure sustainable long-term funding of school facilities.

Higher Education

The Higher Education Compact calls for state funding of $345 million per year, per segment, for the University of California (UC) and the California State University (CSU). The voters approved this level of infrastructure funding for the UC and the CSU through 2007-08 by approving Proposition 1D. Proposition 1D also provided $750 million per year for the California Community Colleges (CCC), which resulted in a total of $3.1 billion for all of the higher education segments for a two-year period.

Proposition 1D included $200 million for UC's Telemedicine program. The UC has committed approximately $160 million for Telemedicine projects. This will be used to implement a systemwide program for improving health care delivery to underserved populations and regions by providing diagnostic and health care advice via videoconferencing, in conjunction with an expansion of medical student enrollment through the Programs in Medical Education (PRIME) program.

The new funding will provide for construction of new facilities at five UC medical schools and affiliated clinics located regionally and throughout the state. New facilities would be constructed and fully equipped to provide the University's health care professionals with videoconferencing capability and instruction and research space to accommodate expanded medical student enrollment in the PRIME program. The balance of funding ($40 million) will be used in future years to expand telemedicine capabilities in community hospitals or clinics and to improve community health services in selected areas such as UCLA/Charles Drew University of Medicine and Science and UCLA/UC Riverside medical education programs.

Proposition 1D is in the second year of funding and nearing exhaustion, consequently, the SGP proposes funding beyond the two years of financing provided by the current bonds. The SGP includes an additional $50 million per year for UC and CSU, on top of the compact funding of $345 million per year, to continue state support for the UC, CSU and CCC beyond 2008-09 through additional bond measures on the 2008 and 2010 ballots, totaling $12.3 billion. These funds will be used to meet an increased student enrollment of approximately 130,000 at the UC and CSU campuses and to continue the current level of CCC support.

Proposed new general obligation funding for higher education includes:

- University of California—$3.2 billion. This funding will help the UC system accommodate an increased enrollment of approximately 50,000 students over the ten-year vision of the SGP. Facilities must be built or renovated to meet this high level of demand.

- California State University—$3.2 billion. This funding will help the system accommodate an increased enrollment of approximately 80,000 students over the ten years.
- California Community Colleges—$6 billion. This funding will help the 72 districts who provide services at 110 colleges and 65 off-campus centers provide services to their approximately 2.5 million students.

While this funding will be allocated over the next couple of years, it will take many years to construct and complete all projects.

TRANSPORTATION

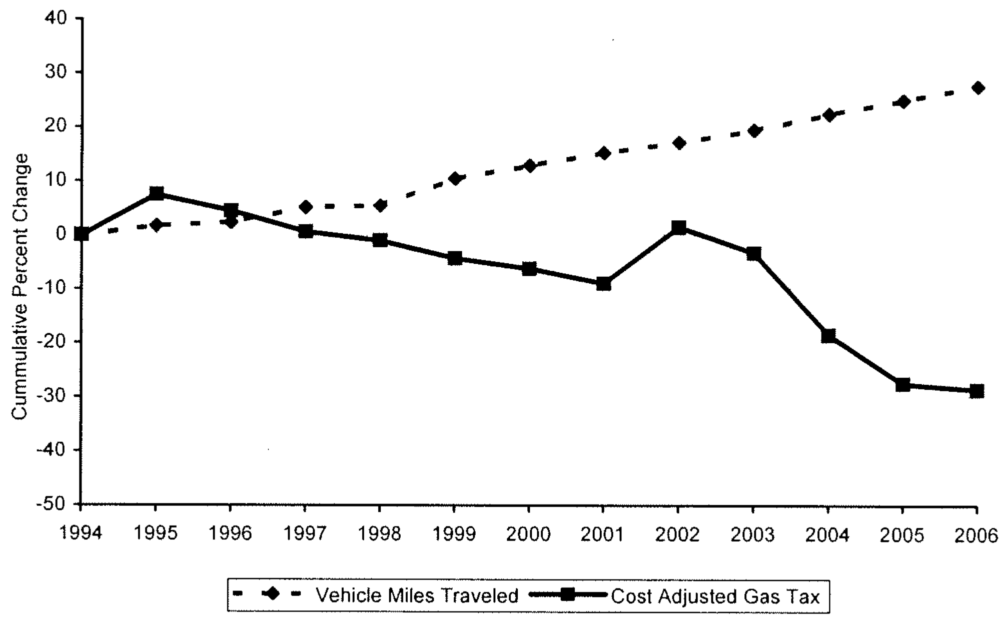
Boosted by voter approval of Propositions 1A and 1B in 2006, investment in long-overdue transportation improvements will help overcome decades of chronic underinvestment in one of the state's most important economic assets.

The inadequacies of California's current funding methods have contributed to the underinvestment in the state's transportation network. Per-gallon taxes on gasoline and diesel fuel and truck weight fees are the dominant sources of funding for transportation system maintenance and expansion. While increasing vehicle efficiency over the years provides valuable energy and environmental benefits, declining revenues per vehicle mile traveled, coupled with inflation and skyrocketing construction costs, have caused revenue sources to fall short of the state's transportation system's needs. Consequently, chronic underinvestment has increased congestion and has resulted in California having some of the most distressed highway and road conditions in the United States.

Part of the gap has been filled with voter-approved local-option sales taxes and the Proposition 42 sales tax on gasoline. In addition, passage of Proposition 1A by California voters in November 2006 ensures that Proposition 42 revenues will be directed solely for transportation purposes. However, these sources are far from sufficient. Between 1994, when gas tax rates were last adjusted, and 2005-06, travel on the State Highway System increased by 27 percent, from 144.2 billion to 183.4 billion vehicle miles traveled. Similarly, vehicle miles traveled on local streets and roads increased 12 percent over the same period from 127.6 billion to 143 billion. Collectively, state highways and local streets and roads support nearly 20 percent more traffic today than just 12 years ago.

Over the same time frame, while state gas tax revenues have increased about 21 percent, transportation system construction costs have far exceeded inflation. The California Highway Construction Cost Index compiled by Caltrans shows that actual construction costs have increased by 200 percent in the same period. As shown in Figure INF-02, the ongoing revenue shortfall for both new construction and maintenance at the state and local levels has caused the state's transportation system to fall further and further behind each year relative to needed improvements.

Figure INF-02
Percent Change in Travel and Transportation Revenues
Adjusted for Construction Costs



The approval by voters of Proposition 1A and the $19.9 billion transportation bond measure of Proposition 1B in November 2006 provides a substantial down payment on meeting California's long-term transportation needs over the next ten years.

PROPOSITION 1B AUTHORIZES THE FOLLOWING PROGRAMS:

- Congestion relief (corridor mobility)—$4.5 billion to expand capacity and improve travel times in high-congestion travel corridors.

- Local transit and intercity rail—$4.0 billion for public transit, intercity and commuter rail, and waterborne transit operations.
- Goods movement—$3.1 billion to relieve traffic congestion along major trade corridors, improve freight rail facilities, and enhance the movement of goods from port to marketplace. This includes $1.0 billion for air quality improvements that will reduce emissions and greenhouse gases from activities related to port operations and freight movement. $100 million is for port security improvements. The SGP proposes that these goods movement funds be used to attract at least $10 billion of private investment and other funding.
- State Transportation Improvement Program—$2.0 billion to augment funds for this existing program that provides capital funding allocated on a formula basis to every region of the state.
- State Route 99—$1.0 billion for improvements to this 400-mile highway through the heart of the Central Valley.
- Local streets and roads—$2.0 billion for improvements to local transportation facilities to construct, repair and rehabilitate streets and roads.
- Transit safety, security, and disaster response—$1.0 billion to improve protection against security and safety threats and to increase the capacity of transit operations to move people, goods, emergency personnel, and equipment during and after a disaster.
- State-Local Partnership—$1.0 billion to match local agencies that raise new funds for transportation projects.
- Highway rehabilitation and operational improvements—$750 million for highway safety, rehabilitation, and pavement preservation projects. This amount includes $250 million for traffic light synchronization projects and other technology-based improvements to enhance safety operations and the capacity of local streets and roads.
- School bus retrofit and replacement—$200 million to reduce air pollution and minimize children's exposure to diesel exhaust.
- Local bridge seismic projects—$125 million to complete seismic retrofits or replacements of local bridges, ramps, and overpasses.
- Railroad grade crossings—$250 million for improvements to railroad crossings and the construction of bridges over rail lines.

Chapters 181, 313, and 314, Statutes of 2007 (SB 88, AB 193, and AB 196), 2007 Budget Act trailer bills, provided the statutory framework for most of these Proposition 1B bond programs. The 2007 Budget Act and related trailer bills appropriated a total of $4.2 billion in Proposition 1B funding, and the 2008-09 Governor's Budget proposes a total of $4.7 billion in appropriations. The California Transportation Commission has already scheduled resources for projects under four of the major bond programs, and has adopted guidelines that will enable projects to be scheduled in the near future for two others.

These new resources will be used in conjunction with existing transportation revenues from state and federal gas taxes, weight fees, tribal gaming funds, and Proposition 42 funds totaling $9.96 billion in capital spending in 2008-09. In the next ten years, the transportation component of the SGP is projected to result in 550 new High Occupancy Vehicle lanes, 750 new highway lane-miles, 9,000 miles of rehabilitated lanes, 600 miles of new commuter lines, 310,000 more transit riders, and a 150-percent increase in intercity rail riders.

Maintaining what we build

While the bonds and the funds they can leverage will provide substantial congestion relief, state and local needs for maintenance, rehabilitation and operation cannot be adequately funded with currently available resources. State-owned highway miles needing repair have increased from roughly 21 percent of the total system in 2001 to 27 percent in 2007, and could increase to 40 percent by 2015-16 unless planned efforts to focus existing resources on pavement rehabilitation are undertaken. Even when these planned actions are implemented, however, about a third of the State Highway System will remain in distress unless additional resources are identified. Local street and road maintenance backlogs of many billions of dollars reportedly exist and are growing. The CalTrans State Highway Operations and Protection Program (SHOPP) does not have sufficient resources to adequately and effectively operate and preserve the State Highway System. Most of the funds made available under Proposition 1B and Proposition 42 cannot be used for these purposes. Fuel tax revenues, which are the primary source of funding for these purposes, are likely to increase slowly or actually decline with the growing use of alternative fuels and increasing fuel efficiency in new vehicles. As the SGP is implemented, the Administration will work with interested parties and the Legislature to develop more information about the scope of the problem and long-term solutions.

High Speed Rail

The High-Speed Rail Authority is charged with planning the development and implementation of an intercity high-speed rail service. The Budget proposes to continue the current level of funding of $1.2 million for basic staff support.

High speed rail in California can ultimately provide a network of ultra-fast rail lines that is a viable and important transportation alternative to address the transportation concerns of California in the next 20 to 30 years. California has been working on high-speed rail for more than ten years now, and to date California taxpayers have borne 100 percent of the project costs, even though their ultimate participation should not exceed 33 percent of the total project cost. In fact, California taxpayers have already spent more than $40 million on planning, consultants and other costs. The plan placed before the voters must demonstrate the financial feasibility of the project and the commitment of federal, state, local, and private participants.

Judicial

The Trial Court Facilities Act of 2002 provided for the transfer of local court facilities to the state to ensure consistency in the provision of justice and to ensure that facilities are managed in a way that provides safe and secure courts. Since that time, the Judicial Branch has worked to complete the transfers and to create an organization that will be responsible for the design, construction and operation of a unified statewide court system. As of July 2007, the Judicial Council had completed 120 court facility transfers from 31 counties. The Administrative Office of the Courts (AOC) is working with the Legislature to extend the deadline to transfer court facilities to the state through December 2009. This would enable the AOC to work with the counties to transfer approximately 180 additional court facilities over the next year, with the remaining facilities estimated to transfer to the state by December 2009.

The state's court system is supported by a substantial infrastructure inventory, including 451 trial court facilities, 11 appellate court facilities and 3 Supreme Court facilities. A significant number of these facilities do not meet current guidelines for efficient and safe court environments and, overall, the facilities are overcrowded with no capacity to handle growth in judicial workload. The AOC estimates that $9.6 billion is needed to bring all the courts up to secure and safe standards and accommodate growth. It is proposed that $2 billion of new general obligation bonds be provided to address these infrastructure issues. While this amount will not fund all facility needs identified by the

AOC, it will provide immediate funding to handle the most critical infrastructure issues over the next ten years. In addition, this funding will enable the courts to leverage private funding through public-private partnerships. These partnerships might include (but not be limited to) arrangements such as:

- Exchanging outdated and inefficient court facilities located on valuable urban property for new court facilities on less prominently-located property.
- Co-locating revenue-generating commercial space (e.g., law offices) in newly constructed court buildings.
- As demonstrated in Canada, the UK and elsewhere, design-build-operate contracts in which the private sector constructs and operates a court building in exchange for lease payments.

With an asset inventory as large as the court system's, there are very likely many opportunities for successful partnerships that would increase the resources available to the court system for its facility needs. Because of the formative nature of the court system's public-private partnership efforts, it is difficult to estimate the amount of resources that will be leveraged.

In addition, the court system receives about $125 million per year from certain fine and fee revenues that are dedicated to addressing facility needs. The ongoing nature of this revenue stream will continue to be an important part of the court system's multiple funding approach to addressing its infrastructure needs.

HOUSING

California has had high housing prices for many years and lags the nation in affordability. Restrictions on land available for development and additional costs imposed by government are the primary reasons for these high prices. This has led to a chronic undersupply of housing affordable to most Californians. State bond funding, tax credits and redevelopment funds are used to help create additional housing, primarily for low-income Californians.

Proposition 1C, provides $2.85 billion for housing-related programs.

- Affordable housing loans and grants—$1.4 billion. This funding will provide for multifamily housing ($345 million), homeless youth housing ($50 million), emergency housing ($50 million), supportive housing ($195 million), farm worker housing ($135 million), CalHome ($300 million), down payment assistance ($200 million), and the Building Equity and Growth in Neighborhoods (BEGIN) program ($125 million). These are existing programs and funding started being allocated from many of them in 2006-07. Over their life these programs are projected to assist in the creation of over 31,000 new housing units and 2,350 shelter spaces.

- New Housing Incentive Programs—$1.45 billion. This funding will support new programs to provide incentives to permit housing development and to stimulate innovation in housing creation. These programs will require further legislative and administrative program development. The Administration is proposing that these funds be granted on a competitive basis, with priority given to localities that increase housing production over recent trends, produce more affordable housing, and do so with less negative impacts by siting housing near transit and within existing urbanized areas. Several of these programs provide funding for parks and other community infrastructure needed for new housing. These programs will incentivize construction of housing; expected to result in 87,000 additional housing units.

Proposition 1C:

$771 million in bond allocations for:

- Affordable homeownership – $188 million
- Multifamily rental housing – $194 million
- Joe Serna Jr. Farmworker Housing – $40 million
- Emergency Housing Assistance – $24 million
- Infill Incentives Grant program – $200 million
- Transit-Oriented Development – $95 million
- Housing Urban-Suburban-and-Rural Parks – $30 million
- Affordable homeownership – $188 million

Proposition 46

The Budget includes the remaining $36 million of Proposition 46 funding. This bond has assisted in the creation or permitting of over 100,000 housing units.

PUBLIC SAFETY

The historic passage of AB 900 in 2007 provided the California Department of Corrections and Rehabilitation (CDCR) $7.7 billion to help address California's prison overcrowding crisis. The Legislature approved these funds for the following purposes:

- Expand capacity at existing facilities—$2.7 billion ($1.8 billion in Phase 1 and $600 million in Phase 2, $300 million General Fund). This funding will add up to 16,000 additional prison beds at existing facilities and expand existing power, water, and wastewater treatment facilities to handle a larger population.

- Local jail facilities—$1.2 billion ($750 million in Phase 1 and $470 million in Phase 2). This will help local governments expand statewide jail capacity for adult offenders by constructing as many as 13,000 new jail beds.

- Re-entry facilities—$2.6 billion ($975 million in Phase 1 and $1.625 billion in Phase 2). In coordination with local governments, re-entry facilities will be constructed to provide about 16,000 new beds to house and program short-term offenders and parole violators.

- Health Care facilities—$1.1 billion ($857 million in Phase 1 and $286 million in Phase 2). This is for the construction of facilities to provide medical services as directed by the court-appointed Receiver in Plata v. Schwarzenegger, and mental health care, and dental services.

Given that much of AB 900 funding is tied to performance and construction goals that CDCR will be working to meet over the next several years prior to accessing the second phase of funding, the Budget proposes that $2.5 billion that is currently appropriated for the second phases for infill, re-entry and medical facilities be redirected to provide the federal receiver with funds to construct medical beds. It is anticipated that this funding will be available to meet the department's needs for mental health care beds as agreed to with the Coleman Court in a manner that will provide efficiencies consistent with the courts' consolidation directions. When the department has met the goals of AB 900 and is ready for additional funding for the second phase, the department will pursue additional funding at that time.

The CDCR is currently working on establishing the scope and cost for several projects to be funded through AB 900 and will present these plans in early 2008. At that time it is anticipated that more detailed cost estimates will be developed to complete the needs of the Coleman bed plan.

OTHER PUBLIC SERVICE

State government provides many services to California's citizenry. Delivery of these services depends upon a variety of capital facilities such as general office space, forest fire stations, homes for veterans, crime labs, beds for mental health patients, agricultural inspection stations and special schools for the deaf, to name only a few. This broad array of facilities must provide adequate functionality and capacity to enable the delivery of services to the public. A $300 million general obligation bond is proposed to be placed on the November 2008 ballot so that the seismic renovation of 29 various state facilities can be completed. These facilities were identified as deficient during the surveys that were completed as a result of the last seismic safety bond and still need renovation to be completed.

Details underlying public infrastructure needs for additional state services, such as CALFIRE, Department of Mental Health, and other state agencies, as well as the larger infrastructure components discussed in this chapter will be laid out in the 2008 Five-Year Infrastructure Plan. That plan will be published by March 1, 2008.

ACCOUNTABILITY

To assure that public funds are used as efficiently as possible and in a manner consistent with the stated intent of already authorized and proposed future bond measures Executive Order S-02-07 was issued. That Executive Order required that prior to any funding being expended from existing or future bonds, the responsible state agencies develop accountability plans that include criteria for awarding, managing, and auditing of programs and projects that would be funded from the bonds. In addition, each program will have regular, independent audits conducted to ensure that funds are being allocated according to those outcome criteria identified in its accountability plan and that the implemented programs and projects did in fact achieve the intended outcomes.

As it is imperative that the public be able to access this information, all departments utilizing these bond funds are participating in a website where the public can review its accountability plan for each program, search for projects throughout the state, and monitor the status of the project. The voters have an absolute right to know how the bonds they authorized are being spent. Therefore, outcome and performance criteria, as well as audit results, when completed, are readily available to the public on this website that can be accessed via the following link: http://www.bondaccountability.ca.gov/.

Affordability

The single most important indicator of a state's creditworthiness and ability to carry debt is the existence of a balanced budget capable of handling its debt load without the need to cut other existing programs to pay debt service. While the SGP will increase the state's debt load over the next 10 years, under this plan state debt service will remain within prudent bounds into the foreseeable future. Figure INF-03 displays the state's debt payments and debt ratio into the future under the SGP.

Figure INF-03
Strategic Growth Plan
Debt Affordability
(Dollars in Millions)

		Base		Strategic Growth Plan	
Year	Revenue	Debt Service	Debt Service Ratio	Debt Service	Debt Service Ratio
2007 - 08	101,230.0	4,435.9	4.38%	4,435.9	4.38%
2008 - 09	102,904.0	5,200.3	5.05%	5,202.1	5.06%
2009 - 10	105,008.0	6,097.2	5.81%	6,144.8	5.85%
2010 - 11	114,771.0	7,063.1	6.15%	7,268.2	6.33%
2011 - 12	119,765.0	7,570.9	6.32%	8,099.9	6.76%
2012 - 13	129,273.0	7,770.2	6.01%	8,783.8	6.79%
2013 - 14	138,074.0	8,031.1	5.82%	9,598.6	6.95%
2014 - 15	146,159.0	8,160.8	5.58%	10,215.7	6.99%
2015 - 16	153,467.0	8,141.7	5.31%	10,481.9	6.83%
2016 - 17	161,140.3	8,443.8	5.24%	10,953.1	6.80%
2017 - 18	169,197.3	8,491.2	5.02%	11,124.3	6.57%
2018 - 19	177,657.2	8,205.5	4.62%	10,949.8	6.16%
2019 - 20	186,540.0	8,218.7	4.41%	11,047.0	5.92%
2020 - 21	195,867.0	7,976.0	4.07%	10,883.6	5.56%
2021 - 22	205,660.4	7,978.1	3.88%	10,960.6	5.33%
2022 - 23	215,943.4	7,934.6	3.67%	10,987.4	5.09%
2023 - 24	226,740.6	7,878.6	3.47%	10,988.7	4.85%
2024 - 25	238,077.6	7,866.4	3.30%	10,998.4	4.62%
2025 - 26	249,981.5	7,873.5	3.15%	11,026.1	4.41%

Assumptions:
- Sales are based on the estimated needs or evenly spread if no needs data was available.
- Assumes an interest rate of 5.75%.
- Maturity life of a General Obligation Bond is 30 years.
- Maturity life of a Lease Revenue Bond is 25 years.

Transportation Programs

State Transportation Improvement Program (STIP)

The STIP Fund Estimate is an approximation of all resources reasonably expected to be available for the STIP and other transportation priorities over a five-year period. The 2006 STIP Fund Estimate and STIP Augmentation cover 2006-07 through 2010-11, totaling $8.3 billion. The Budget reflects expenditures of $2.1 billion in 2007-08 and $1.5 billion in 2008-09 for STIP projects, a decrease of 29 percent. The reduction is due primarily to an unusually high one-time increase in capital funding for public transportation projects in 2007-08 and statutory changes in SB 79 and SB 717 that specify that a significantly larger share of the Public Transportation Account revenues now go to local transit agencies to fund operating costs. The reduction also reflects the temporary increase in capital expenditures in 2006-07 and 2007-08 associated with the $1.4 billion Proposition 42 loan repayment in 2006-07.

STIP

The STIP is the state's transportation enhancement program. It includes the addition of highway lane miles as well as expansion of intercity rail projects. Statutorily, the state determines projects for 25 percent of STIP funds, while regional transportation planning agencies program the remaining 75 percent. STIP is funded primarily from Proposition 42 resources in the Transportation Investment Fund, though some resources are provided from Proposition 1B bonds, federal funds, the Public Transportation Account, and Proposition 42-related loan repayments.

State Highway Operation and Protection Program (SHOPP)

The 2006 STIP Fund Estimate reflects $7.9 billion in resources for SHOPP projects from 2006-07 through 2009-10. The Governor's Budget reflects expenditures of $2 billion in 2007-08 and $1.6 billion in 2008-09, a decrease of 20 percent due to a one-time increase of $460 million in 2007-08 in reimbursements for past emergency expenditures and the redistribution of federal funds that other states were unable to use.

Local Assistance Programs

Caltrans provides state and federal transportation funds to local agencies for local capital improvement projects on the state highway system, mass transit capital improvement projects, and local bridge improvement projects. The Governor's Budget proposes $3 billion for local transportation in 2008-09, including $156 million for local mass transportation projects.

Local Mass Transportation

The Governor's Budget includes funding for the following transit, rail, and planning programs, as reflected in Figure BTH-02. This reflects a continuation of the funding allocation priorities set in Chapter 181 (SB 88), Statutes of 2007.

Figure BTH-02
Public Transportation
(Dollars in Millions)

Public Transportation Account (PTA) Funding		2007-08		2008-09
Planning	$	23	$	23
Intercity Rail Operations	$	112	$	106
Rail Projects	$	36	$	-
Local Transit Grants	$	304	$	743
Local Transit Projects	$	566	$	53
Traffic Congestion Relief Program Funding				
Local Mass Transportation Projects	$	66	$	59
State Rail Projects	$	12	$	5
Proposition 1B				
Transit	$	600	$	350
Rail	$	188	$	73
Transit Security	$	101	$	101
Total	**$**	**2,008**	**$**	**1,513**

- $141 million to continue funding transportation services administered by Regional Centers.
- $1.1 billion for local transit agencies for operating and capital purposes through the State Transit Assistance Program. This amount includes $350 million in Proposition 1B funds for capital transit projects and $742.9 million from sales tax revenues, including a $74 million increase in Proposition 42 revenues resulting from passage of SB 717. Operating funds from sales tax revenues are growing from $304 million in 2007-08 to $743 million in 2008-09.

SHOPP

The SHOPP includes a range of rehabilitation projects that are intended to reduce hazardous road conditions, preserve bridges and roadways, enhance and protect roadsides, and improve operation of the state highway system. The SHOPP is funded primarily from the State Highway Account from the state's two-thirds share of fuel excise tax revenues, weight fees, and federal funds.

State Operations

- The Governor's Budget proposes $4.2 billion in state operations funding to support Caltrans in 2008-09, including $2.9 billion from the State Highway Account, $362 million in federal funds, and $990 million from other special funds, a $14 million increase from currently estimated 2007-08 expenditures.
- A new $20 million bond program is being proposed for Caltrans for the sale of Clean Renewable Energy Bonds (CREBs). The resources will be utilized to fund up to 70 photovoltaic (i.e., solar energy) projects at maintenance facilities, equipment shops, transportation management centers, materials labs, and office buildings.