CALIFORNIA STATE TREASURER BILL LOCKYER

NEWS RELEASE

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Treasurer Lockyer Proposes State Infrastructure Master Plan, Releases 2009 Debt Affordability Report

Says Water System Improvements Should Be Financed Mainly by Users

SACRAMENTO – State Treasurer Bill Lockyer today called for the adoption of a California infrastructure master plan, and said improvements to the state's water works should be financed mainly by users, not the State General Fund.

"The days of blithely heaping more and more debt burden on the General Fund are over – at least they should be," said Lockyer. "We face a $38 billion structural budget deficit over the next three fiscal years. If we're not careful, rising debt service payments soon will consume more than 10 percent of General Fund revenues. That will force even more cuts to vital services already reeling from severe budget reductions. California needs a smarter, more strategic approach to capital investment. We need a master plan."

Lockyer's proposal to create the master plan is contained in the 2009 State Debt Affordability Report released today. His recommendation that users finance the bulk of improvements to the state's water infrastructure came in a letter to Californians included in the report.

The report is titled, "The Investments We Need for the Future We Want: California Needs a Master Plan." To illustrate how debt payments will eat up increasingly bigger chunks of the General Fund, the report includes the following key data points:

- The State in 2010-11 through 2012-13 will issue an estimated $44.06 billion in additional bonds backed by the General Fund. Over the same period, for these additional bonds and bonds already sold by the State, the General Fund will have to pay a combined $23.16 billion in debt service.

- As a percentage of General Fund revenues, the annual combined debt service payments will grow from 7.7 percent in 2010-11 to 8.81 percent in 2012-13. Meanwhile, the General Fund over these three years will have a cumulative structural deficit of $38 billion, according to Department of Finance (DOF) revenue and spending estimates.

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- Over the longer-term, from the current fiscal year through 2027-28, the State will issue $225.98 billion of General Fund-backed bonds. The combined debt service on these bonds and already-sold bonds, over the same period, will total $254.96 billion.

- The General Fund's annual bond payments will grow from $6.01 billion in 2009-10 to $19.64 billion in 2027-28. As a percentage of General Fund revenues, the annual debt burden will increase from 6.71 percent in the current year to 9.18 percent in 2027-28. In between, from 2014-15 through 2020-21, the debt service ratio will exceed 10 percent of General Fund revenues.

These imposing numbers form the backdrop for Lockyer's infrastructure master plan proposal. Policymakers need to start working now to adopt a longer-term approach to capital investment, the report says, to help the State get through the budget challenges of the next three years and ensure that over the long haul the State can both meet its critical infrastructure needs and provide vital public services.

Under Lockyer's proposal, the Legislature and Governor would jointly appoint a commission that would adopt a Master Plan for Infrastructure Financing and Development. The master plan would assess California's overall infrastructure needs through 2050, and provide a financing framework for meeting those needs. The financing framework would identify State, local and private sources of funds, and ways to realign State-local funding responsibilities. It also would recommend actions to more efficiently use existing facilities and reduce the need for new infrastructure.

Lockyer will seek legislation to establish the commission. To guide its work, Lockyer recommended in the report that the commission use as its model the State's Master Plan for Higher Education.

In the letter to Californians, Lockyer called the current debate over water system improvements "a timely and pressing case study" on the need to take a more thoughtful approach to infrastructure financing and its effect on the General Fund.

"Some have suggested paying the entire cost with State general obligation bonds, which must be repaid from the General Fund," Lockyer wrote. "But this report makes clear that further increasing the General Fund's debt burden, especially in the next three difficult budgets, would require cutting even deeper into crucial services already reeling from billions of dollars in reductions. The case for user-funding for most water system improvements is compelling, both as a matter of equity and fiscal prudence."

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