



“Invest for California”... How Are We Doing?

A Progress Report
on the
Recommendations
of the

Governor’s Commission on Building for the 21st Century

(Preview Draft)
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Why we present this Progress Report

California's infrastructure systems are essential to our future economic prosperity and quality of life. This idea was recognized and wholly embraced by "Invest for California," the Report of the Governor's Commission on Building for the 21st Century, released in February 2002. The Governor's Commission consisted of a diverse group of 48 private and public sector members who spent more than two years studying the state's long-term infrastructure needs and developing recommendations for immediate and long-term actions to meet those needs. The Commission's Report was excellent: it laid out a vision and a set of principles as well as dozens of policy, program and financing recommendations.

The California Policy Reform Network (CPRN), a collaboration of six statewide and four regional organizations,* is dedicated to bring regional voices to bear on critical state policy reforms that would improve our planning and investment in infrastructure and hence improve our economic prosperity and quality of life. CPRN hold forums and dialogues on these issues in regions across the state, and bring the results of those dialogues to state policymakers through Sacramento Roundtables and one-on-one briefings, and to a broader public through website and electronic communications.

CPRN has prepared this Progress Report to document whether and to what extent the Commission's recommendations have been implemented, and where they have not, we identify areas that require urgent, highest priority attention by state policymakers. We stand ready to bring to bear the support and encouragement of this state's civic, business and grassroots leadership if our state policymakers will act boldly and wisely to meet our critical infrastructure needs.

Overall, this Report can be summarized with three words: progress, opportunities, and challenges.

- **Progress.** Over the past few years, and with increasing momentum over the past two years, progress has been made among policymakers, opinion leaders and the general public in recognizing the importance of meeting the broad range of infrastructure needs at the state, regional and local level. Intellectual progress has been made in understanding a variety of innovative strategies for meeting infrastructure needs (such as conservation and other "non-build" strategies). And physical progress is underway in areas such as K-12 school construction and modernization; "green" infrastructure, such as protection and/or restoration of wetlands and open space; and new energy generation capacity, including an increased focus on renewable sources.
- **Opportunities.** With the increased recognition of infrastructure needs has come increased public will to support state and local spending to meet those needs. However, the state's massive operating budget deficit decreases the prospect for significant amounts of discretionary, pay-as-you-go infrastructure spending for perhaps several years (except as required by ACA 11, which if approved by the voters in March 2004 will set aside funds annually that can only be spent to meet state and local infrastructure needs). In this climate, debt financing seems the logical choice. And with interest rates at historic lows the cost of borrowing has been reduced significantly. This is a very important opportunity to invest at

lower cost. However, there is some doubt about the extent to which state General Obligation bonds might be available, depending on whether the Legislature decides to use the state's debt capacity to retire the current structural budget deficit. Other financing ideas, including lowering the vote threshold for local bond measures and fee-based revenue bonds are being examined as alternatives.

- **Challenges.** The challenges are immense, because, as economists say, the demand is “inelastic.” With each passing year, the state's infrastructure systems, lacking maintenance and repair funds, come closer to the end of their useful life, some of which like roads and bridges and water systems are the product of major infrastructure building efforts in the 50's and 60's. And our population growth is not slowing. Further, our capacity for economic innovation and increased productivity requires investment in state-of-the-art technologies in our public systems (such as schools and libraries) as well as in our private sector. In the face of these increasing demands, there is concern that the state's fiscal crisis and political and legislative gridlock could diminish public support for government generally, and this could have a “backlash” effect. Because the voters themselves through the ballot box now authorize so much of our infrastructure financing, any diminishment in voter confidence puts into question the electorate's willingness to support major new infrastructure financing initiatives.

Infrastructure investment

Since the early 1960s, when investment in infrastructure constituted nearly a quarter of the state's general fund expenditures, state capital outlays have consistently failed to keep pace with population growth (now about 600,000 residents a year). The discrepancy between expenditures and population has been even more dramatic since 1970; in fact, there have been only minimal increases in the built infrastructure. Some of this is due to conservation efforts, such as water conservation instead of new storage and conveyance facilities. Much of it is simply due to neglect.

There is widespread recognition that something must be done. Governor Gray Davis, in announcing the executive order creating the Commission on Building for the 21st Century, declared that a plan “which identifies both short-term and long-term capital investment needs and planning, funding, and building needs is

What is “Infrastructure”?

Infrastructure has traditionally been defined as large capital works projects such as roads, dams and sewers. But over the past few years, the definition of infrastructure has been expanded to include other public assets.

Infrastructure is now often broken into three areas:

Physical Assets, sometimes called “brick and mortar infrastructure,” are the traditional, man-made capital projects and structures. These include public buildings, school facilities, water supply systems, housing, roads and transportation systems, etc.

Natural Assets, or “resource infrastructure,” are natural resources that either act similarly to man-made infrastructure or whose fate can be negatively affected by infrastructure problems. They are also elements that greatly impact the local quality of life. Forests, rivers, beaches, open space and wetlands are considered resource infrastructure.

Information Infrastructure includes the technology and systems that provide communities with the means to communicate information, ideas and entertainment. These systems, which are sometimes privately owned, also provide citizens easier access to services provided by government, community agencies and private companies. Telephone and fiber optic lines, for example, are part of the information infrastructure.

needed to move the State confidently into the 21st Century.”

Business leaders and other state officials have echoed the assessment that infrastructure is a vital, but often wrongly ignored, element of the state economy. State Treasurer Phil Angelides has frequently referred to infrastructure as an “economic stimulus, both in the short and long term,” and notes that there is a long history in America of using public infrastructure investments as an economic tool. He points to the Depression-era Works Progress Administration that built many of the infrastructure systems that now are in need of replacement or enhancement as a prime example.

“The availability of quality of infrastructure in a community has a tremendous effect on a region’s business climate,” explains Bill Hauck, President of the California Business Roundtable. “Businesses rely on stable water and energy supplies, roads with the capacity to carry goods and bring employees to work, and quality schools to provide a pool of educated workers.”

Elected officials and business leaders aren’t the only ones to recognize the value of infrastructure in California. The general public also overwhelmingly recognizes the value of the public works projects that form the fabric of their communities.

“Californians are nearly unanimous in their belief that the conditions of roads and other infrastructure are important to the quality of life and economic vitality of their region,” according to Mark Baldassare of the Public Policy Institute of California. “They place a high priority on public funding for three types of projects – school facilities, surface transportation and water systems – reflecting the fact that state infrastructure planning has fallen behind current demand and projected needs.”

Why we can’t ignore infrastructure needs even in the current economic and state budget and debt-financing environment

Despite important progress, significant challenges and opportunities remain in order to implement the key infrastructure recommendations of the Governor’s Commission on Building for the 21st Century, as well as the Department of Finance’s five-year capital investment plan and reviews of infrastructure needs by the Legislative Analysts’ Office.

Even in the midst of the state’s fiscal crisis, perhaps especially because of the crisis and the possibility of years of fiscal constraint, we must focus on solutions based on comprehensive, integrated planning and on optimizing “return on investment,” as was recommended by the Commission. Infrastructure projects often take years or even decades to complete, and future infrastructure needs are unlikely to diminish overall no matter what the state budget condition or improvements in technology. Staying ahead of the curve in anticipating the infrastructure needs of the state, regions and local communities will mean more efficient use of available financial resources while better meeting the needs of California in the decades ahead.

Paying attention to infrastructure needs now, instead of waiting until the state is in better financial condition, will also speed economic recovery and generate jobs. Regional leaders convened by the California Policy Reform Network are calling for care during the budget cutting

process to ensure a high priority for infrastructure investments that are an essential component of our “business climate” and our quality of life. As declared by the California Economic Strategy Panel in its recent report, “A Call to Action,” the quality of infrastructure is not a luxury, but a bottom line issue for retaining and growing our businesses and jobs.

Progress Has Been Made

The Commission on Building for the 21st Century organized its recommendations into three main areas: urgent priorities, “cross-cutting” strategies that affect all infrastructure categories, and the eight key infrastructure building blocks. We report on progress made in each below.

Progress on Urgent Priorities

The Commission made four recommendations that it considered to be **urgent priorities** for the state. (These recommendations were made as of February 2002)

- **New State School Bond Measure.** Pass a new state bond measure to continue support for repairing and modernizing our K-12 and higher education facilities.
- **Create a Statewide Energy Infrastructure Policy.** Pursue a strategy to further diversify our energy supply and provide surplus capacity including traditional and alternative, renewable electricity generation and sufficient refinery capacity to meet our long-term energy goals.
- **Increase Housing Production.** Provide incentives and regulatory reform measures to increase the supply and affordability of housing throughout our state.
- **Local Finance Approval at 55% for Transportation.** Pass a constitutional amendment to lower the vote threshold to 55% for bonds and sales tax initiatives to generate revenues for local and regional infrastructure plans.
- **Statewide Water Infrastructure Plan.** Develop and agree upon projections for statewide and regional water needs as a foundation for developing a statewide water infrastructure plan, noting that a long-term plan will help provide a reliable water supply.

Significant progress has been made against these urgent priorities. Between September 2002 and March 2003 the following measures were passed that show successful progress against the states’ most urgent infrastructure needs:

New State School Bond Measure	Proposition 47, state bond measure which provides \$13 billion for school facilities statewide, passed November 2002
Create a Statewide Energy Infrastructure Policy	On May 8 2003 the Public Utilities Commission, Energy Commission and Consumer Power and Conservation Financing Authority entered into a first-of-its kind Energy Action Plan for California.
Increased Housing Production	Proposition 46, which provides \$2.1 billion for housing projects, passed November 2002
Local Finance Approval at 55% for Transportation	Proposition 42, which dedicates sales and use tax revenues from vehicle fuel sales to transportation-related projects, passed March 2002. (Though this initiative does not lower the voter threshold, nor require investments to be plan-

	based, it does dedicate a revenue source to transportation)
Statewide Water Infrastructure Plan	Water bond measures Proposition 40 (passed March 2002) and Proposition 50 (passed November 2002), which provide a total of over \$6 billion for water projects, coastal protection and land acquisition. (Though this initiative does not provide for a water infrastructure plan, it does provide funds for water infrastructure enhancements.) However, the new State Water Plan to be adopted in 2003 could revolutionize how we organize state and regional water supplies.

Progress on Crosscutting Reforms

The Commission also made recommendations on crosscutting reforms that affect all infrastructure categories as follows:

- **A California Infrastructure Partnership.** Create a new, permanent, public-private entity, the California Infrastructure Partnership, whose mission would be to support needed and cost-effective infrastructure planning and investment for our future.
- **A California Infrastructure Fund.** Establish a permanent infrastructure investment fund separate and distinct from those funds currently earmarked or budgeted for infrastructure. This fund would be a yearly set-aside from the General Fund that could generate \$5 to \$10 billion for infrastructure over 10 years.
- **State-Local Finance Reform.** Reform state tax policy to improve land use decisions so that current disincentives to housing are addressed and localities have sufficient revenue to provide services for new residents.
- **Responsible Land Use in California’s Communities.** Promote policies and practices that balance the competing needs of residential, commercial, agricultural and environmental uses for scarce land resources. Require and provide financial support for regional housing plans to ensure that sufficient housing is available. Expand initiatives for new models of development such as transit-oriented, compact, mixed-use development, infill development and creation of urban parks.

Some progress has been made against these recommendations for cross-cutting reforms.

A California Infrastructure Partnership	No progress to date.
A California Infrastructure Fund	ACA 11(2002, Richman) will be on the ballot in March 2004. It would dedicate a percentage of General Fund revenues toward state and local capital improvement projects. If voters approve the measure, California will have a dedicated and consistent source of funding for infrastructure projects, replacing the current haphazard funding process. AB 1473 (1999-2000, Hertzberg) required the governor annually to provide the Legislature with a capital project implementation plan for

	<p>the following five-year period, which helps improve the longer-term planning of infrastructure. The first five year capital plan was released by the Department of Finance in April 2002.</p>
<p>State-Local Finance Reform</p>	<p>AB 680 (2002, Steinberg) passed the Assembly but died in the Senate. It would have created regional revenue sharing for the six-county Sacramento region.</p> <p>AB 1221 (2002-2003) has not passed out of the legislative process as of this writing. However, this bill begins to address the distortions in local government finance by reducing local governments' share of the sales tax revenue and simultaneously increasing their share of property tax revenue by an equal amount. This bill changes the fiscal incentive to promote housing or industrial production rather than retail.</p> <p>The Commission on Tax Policy in the New Economy, established by law (2000, Vasconcellos) will report by year-end, and may embrace and recommend a broad array of fundamental tax reforms. However, its work is still in progress.</p>
<p>Responsible Land Use in California's Communities</p>	<p>AB 857 (2001-2002, Sher, Wiggins) is the state's most important land use law in thirty years, requiring the state's five-year capital plan and agency functional plans to demonstrate that they are consistent with state land use planning priorities (infill development, environmental and farmland protection and more efficient use of the land wherever development occurs). The Governor's Office of Planning and Research is charged with implementation and has undertaken a promising approach, involving broad community and stakeholder input and engagement with the agencies across the Cabinet.</p>

Progress on Eight Building Blocks

The Commissions recommendations on the eight building blocks of infrastructure are as follows:

- **Educational Facilities:** encouraging joint uses with other community partners; encouraging resource efficient buildings, encouraging efficient use of land and resources, with planning for educational facilities integrated with other community needs; encouraging schools as centers of communities and centers of learning.
- **Energy:** encouraging conservation; increasing supply and diversity of power generation; supporting the deployment new technologies to provide clean, reliable and cost-effective sources of power.
- **Housing:** meeting statewide housing production goal of 200,000 units per year within 5 years; financing incentives for increased housing production linked to sustainable development; strengthened state housing element law; reform of state-local fiscal structure; resolving construction defect litigation problem; removal of regulatory barriers; improving the process of planning new housing; more efficient use of land resources.
- **Land use:** increasing commitment to stewardship; reform of state-local fiscal structure; increasing efficiency of land use through cleanup of contaminated lands; community design; integrating local and regional planning in conjunction with updated General Plans; improving science, data systems for managing land resources; new models for responsible development.
- **Public Facilities:** reducing our maintenance backlog; designing and siting public facilities more efficiently; employing techniques such as joint-use and high performance design, energy and resource efficient practices and public-private partnerships; expanding capacity through e-government and other options; using public facilities to serve as anchors to community development and revitalization with community participation.
- **Technology:** creating fair markets and regulatory conditions to protect consumers, encourage private sector investment and nurture entrepreneurial ventures; increasing public sector service options through technology; continuing to facilitate public and private sector partnership with academia to bring technologies to market; providing internet access and opportunity for skill development to the general public.
- **Transportation:** empowering local governments to generate transportation funding; pursuing increases in funding via federal sources; improving local and regional planning to link jobs, housing, recreation and services with transportation; increasing transportation choice; applying new technologies and techniques to increase the lifespan of transportation assets; increasing maintenance; maintaining current trend in increased investment in transportation infrastructure.
- **Water:** continuing to provide legislative support for water planning; implementing CALFED and the state water bond; employing water conservation, recycling and reclamation; expanding use of water transfers; conducting statewide research and planning for water infrastructure, especially for water and land use planning; implementing water storage through groundwater banking, off-stream storage and conjunctive use techniques.

Educational Facilities	\$50 million included in each of two state school bond measures for joint use facilities. The first passed (Proposition 47, November 2002) and the second is on the November 2004 ballot.
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	<p>AB 2588 (2001-2, Hertzberg) passed but was vetoed by the Governor. This bill would have provided for a process to identify and provide waivers against state school construction regulations that are barriers to collaborative planning and joint use.</p>
Energy	<p>SB 1078 (2002, Sher) requires that 20 percent of electricity be provided from renewable sources by 2017</p>
Housing	<p>Proposition 46 provides \$2.1 billion, part of which can be used to subsidize affordable housing (e.g. \$25 million match for local housing trust funds). Passed, November 2002.</p> <p>SB 800 (2002, Burton). Adopted. This bill changes standards and procedures for treatment of construction defects, with the potential to remove litigation barriers to the production of attached, ownership housing.</p>
Land use	<p>AB 857 (described in previous section)</p> <p>Several regions have undertaken comprehensive, integrated regional visioning and planning, but this has yet to be codified or incentivized by state policy, as recommended by the Commission.</p> <p>Reform of state brownfield cleanup regulations has been very slow. Current legislation, SP 493 (Cedillo) would implement one of the Commission’s regulations regarding liability protection for innocent parties, but it is still in the legislative process.</p>
Public Facilities	<p>The Governor and the State Department of General Services have committed to the use of energy efficiency and “green” building design standards in the construction of all new state buildings.</p>
Technology	<p>The Community Technology Centers program has begun, but is not yet fully deployed.</p>
Transportation	<p>Because of the current budget deficit, both the Transportation Congestion Relief Program (pay-as-you-go funding for transportation projects) and Proposition 42 (see above) have</p>

	<p>been targeted for major reductions. As of this writing, Prop 42 funds appear to be protected, but the TCRP will see major cutbacks and delays in allocation.</p> <p>Bills to reduce the vote threshold for local transportation and other infrastructure bond measures are making their way through the current legislative session. These bills include SCA 11/ACA 14 (links to affordable housing, parks, open space and other local infrastructure), SCA 2 (links to smart growth) and SCA 7 (no criteria).</p>
Water	As noted above, Propositions 40 and 50 provides over \$6 billion for water projects.

Special Focus on the Voter Threshold

The vote threshold for local special taxes has received extensive attention from members of the Legislature in the 2002-2003 session, especially because the lower threshold for passing school bonds significantly improved the ability of schools to raise revenue for facilities improvements. The change from a required two-thirds majority to a 55 percent threshold led to a doubling in the number of successful local school bond measures between 1999 and 2002. Without the lowered threshold, 40 local school bond measures in 2002 – or 42 percent of those on the ballot – received between 55 percent and two-thirds of votes but would have failed.

Selling the idea to lower the threshold for local transportation sales taxes is a difficult challenge however. While nearly 70 percent of Californians generally support the two-thirds supermajority as a “good thing,” the support is somewhat soft. According to surveys from the Public Policy Institute of California (PPIC), 47 percent of voters would vote in favor of lowering the threshold for infrastructure financing to 55 percent, although 49 percent of voters said they would oppose such a move.

Passing sales tax measures to fund transportation with a 67 percent supermajority is another serious challenge. In 2002 transportation sales tax measures in Merced and Solano Counties failed even though they received more than 60 percent of the vote. These counties were not able to overcome the 67 percent majority required. The only transportation sales tax measure to succeed in 2002 was in Riverside County, where it passed with 69 percent of the vote. In fact, 32 percent of similar measures on the ballot since 1984 received more than 55 percent of the vote but failed to reach the two-thirds supermajority.

California and local communities will face a growing need to address transportation funding. In 2001, transportation sales taxes generated approximately \$2.6 billion for transportation projects in California. But between 2006 and 2010, approximately 35 percent of existing transportation sales tax plans will sunset, creating the potential for critical financing shortages.

If current transportation sales taxes are not renewed, over \$18 billion dollars that would go to fund transportation projects over the next 20 years could be lost; using a conservative 5 percent growth rate in taxable sales, the actual dollar amount lost would be closer to \$48 billion. In either case, the loss would be a significant blow to transportation planning.

There are several promising bills making their way through the 2002-2003 legislative session that would lower the voter threshold for transportation and other types of infrastructure. Some of these bills reflect an interest in the community to see that transportation funding be tied to building healthy communities by creating funding links to affordable housing, or links to “smart growth”, or links to parks and other types of infrastructure. It remains to be seen, which, if any, of these measure will move out of the legislature and then be passed by the voters in an initiative.

California: On Which Brink?

Essential public policy decisions must be made in California that will determine whether it is on the brink of a financial meltdown, greater congestion and degradation of our quality of life – or whether it stands poised to seize opportunities for fiscal reform, long-term economic stimulus and efficient capital project planning and management.

The Report of the Governor’s Commission on Building for the 21st Century represents a “baseline” against which progress can and will be measured. The California Policy Reform Network will continue to monitor the state’s progress and report back to civic leaders and policymakers. We also recommit ourselves to encourage and enhance dialogue on the pressing infrastructure issues facing California, and to engage California’s regions in developing effective public policy that will enable the state to successfully make progress by seizing the opportunities and overcoming the challenges to creating and maintaining the infrastructure so necessary to a sustainable California in the years to come.