

GROWTH PLAN



# CALIFORNIA STRATEGIC GROWTH PLAN

STRATEGIC

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Last year, the Governor and Legislature initiated the first phase of a comprehensive Strategic Growth Plan (SGP) to address California's critical infrastructure needs over the next 20 years. California faces over \$500 billion in infrastructure needs to meet the demands of a population expected to increase by 23 percent over the next two decades. In November 2006, the voters approved the first installment of that 20-year vision to rebuild California. The Governor's Budget includes \$13.7 billion of the recently approved bonds to immediately begin building California for future generations.

Much progress will be made with this initial funding. Thousands of new and renovated classrooms will be built throughout the state, transportation construction projects will begin to reduce congestion of goods and traffic, and work on dozens of critical levee improvements is already underway.

This year, we must complete the first phase of this Strategic Growth Plan by addressing critical gaps that remain in California's infrastructure:

- California's dangerously overcrowded prison and jail systems require significant expansion and rehabilitation to protect public safety, as well as ensure the safety of the correctional staff and rehabilitation and safety of inmates.
- The state's K-12 schools need funding beyond the two 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*.
- The state's higher education systems need funding beyond the two years of financing provided by the current bonds to prepare for future enrollment growth and maintain the world renowned research capabilities of California's universities.

- The state’s water supply and management systems need to be expanded to meet the needs of population growth and manage the effects of climate change on California’s hydrology and water delivery systems.
- Expanded authority is needed to leverage existing tax dollars and recently approved bond dollars to attract billions of additional dollars in transportation funding through public-private partnerships.
- California’s court system is in need of substantial expansion and repair to address significant caseload increases and reduce delays.

To complete the Strategic Growth Plan, the Administration proposes additional funding for critical infrastructure improvements between now and 2016. With these augmentations, the SGP will fulfill the comprehensive ten-year infrastructure financing plan to rebuild California begun last year. This infrastructure financing plan is the first phase of a 20-year vision to rebuild the foundation of California’s unique quality of life and the platform for its powerful economic engine.

As reflected in Figure 1, \$29.4 billion of new general obligation bonds and \$13.9 billion of additional lease-revenue and self-liquidating revenue bonds are proposed to augment the existing funds for the SGP through 2016. Coupled with additional authority to engage in public-private partnerships and utilize design-build concepts, the already authorized and proposed new bonds will leverage an additional \$20 billion in significant infrastructure investment.

**Figure 1**  
**STRATEGIC GROWTH PLAN**  
**2006-2016**  
(Dollars in Billions)<sup>1</sup>

Program	Proposed New Bonds			Other Funding Sources		
	General Obligation	Lease <sup>2</sup> Revenue	Self- <sup>3</sup> Liquidating Revenue	Existing <sup>4</sup>	New <sup>5</sup>	Total
Public Safety		9.5 <sup>6</sup>		0.3	1.1	10.9
Education-K-12	11.6			17.4 <sup>7</sup>		29.0
Education-Higher Ed	11.5	0.1		10.1		21.7
Flood Control, Water Supply and Conveyance	4.0		2.0	25.0		31.0
Transportation				87.3	17.0	104.3
Judiciary	2.0				2.0	4.0
Other Natural Resources				3.1		3.1
Housing				2.9		2.9
Other Public Service	0.3	2.3		2.2		4.8
Infrastructure						
<b>Totals</b>	<b>\$29.4</b>	<b>\$11.9</b>	<b>\$2.0</b>	<b>\$148.2</b>	<b>\$20.1</b>	<b>\$211.6</b>

<sup>1</sup> See Appendix A for the details of the fund sources.

<sup>2</sup> Lease revenue bonds are supported by rental payments that result from leasing the financed asset.

<sup>3</sup> Self-liquidating revenue bonds are supported from a new revenue stream generated by the financed asset.

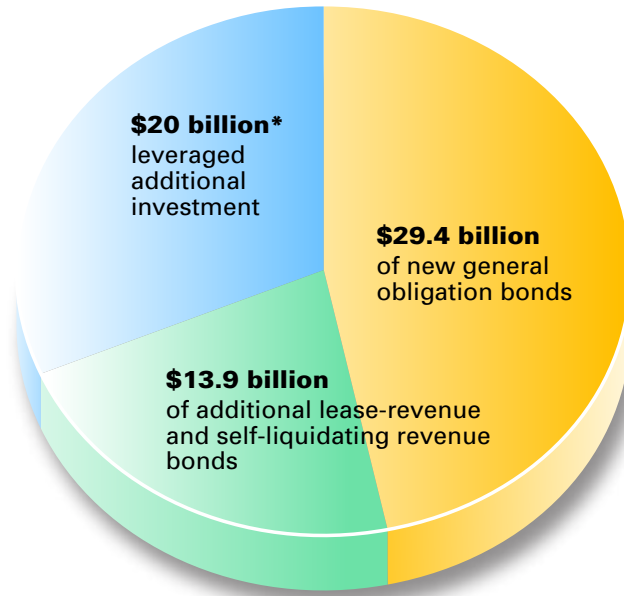
<sup>4</sup> Existing Funding Sources column includes already authorized bonds, special funds, General Fund and estimated federal and local matching dollars from existing shared funding programs.

<sup>5</sup> New Fund Sources includes estimated additional funding from public-private partnerships and new state-local shared programs.

<sup>6</sup> Included in this amount is an amount that may be used to pay debt service on local facilities.

<sup>7</sup> In addition, K-12 will provide \$5 billion in local match over multiple years beyond the SGP period for the Charter School Facilities and Career Technical Education Facilities programs, as authorized in statute.

## SGP Proposed New Investments



\*Coupled with additional authority to engage in public-private partnerships and utilize design-build concepts.

The SGP proposes that the new general obligation bonds be placed on the ballot in the 2008 and 2010 elections as shown in Figure 2 and that all bonds be issued in a manner that maintains a prudent debt ratio.

**Figure 2**  
STRATEGIC GROWTH PLAN  
2006-2016  
ELECTION YEAR PROPOSALS  
GENERAL OBLIGATION BONDS  
(Dollars in Billions)

Program	2008	2010	2012	2014	Totals
Education-K-12	\$6.5	\$5.1			\$11.6
Education-Higher Ed	7.2	4.3			11.5
Flood Control, Water Supply and Conveyance	4.0				4.0
Judiciary	2.0				2.0
Other Public Service Infrastructure	0.3				0.3
<b>Total</b>	<b>\$20.0</b>	<b>\$9.4</b>	<b>\$0.0</b>	<b>\$0.0</b>	<b>\$29.4</b>



## PUBLIC SAFETY



California's prison population is expected to surpass 175,000 inmates in 2007, nearly double the number the system was designed to handle. To secure these offenders, the California Department of Corrections and Rehabilitation (CDCR) is housing inmates in workrooms and dayrooms and triple-bunking some in gymnasiums and dormitories. Gyms and dayrooms were not designed to house inmates, and this severe overcrowding creates major safety and security concerns for officers, staff and inmates. Under a declaration of emergency issued by the Governor on October 4, 2006, the CDCR has begun temporarily transferring inmates to prison facilities in other states.

Overcrowding in local jails is just as serious. Space is so limited in local jail facilities that 33 counties are under court-ordered or self-imposed population caps. As many as 18,000 arrestees every month are released from jail early or avoid jail altogether as a result of population caps.

The CDCR and local jurisdictions continue to face increasing pressure from courts to address the public safety population crisis. CDCR is facing three lawsuits attempting to impose a mandatory cap on population in state prisons. If such a cap were imposed by a court, it would result in tens of thousands of felons being released into California communities. This phase of the SGP represents an integrated approach to the issue of incarceration capacity statewide; a partnership between counties and the state to effectively manage a growing problem and challenges in our shared criminal justice system.

Failure on parole is a significant factor driving the overcrowding of our jails and prisons. Currently, seven out of every ten parolees are returned either to state prisons or local jails within three years - the highest recidivism rate in the nation. To reduce post-release criminal behavior of high-risk offenders, the CDCR proposes to operate secure re-entry facilities with the enhanced

services for parolees to increase their chances for success outside of prison. Successful implementation of these facilities and programs requires a collaborative partnership between CDCR, local law enforcement, and local community social service providers. Through the re-entry program, inmates and revoked parolees will spend up to 12 months of their prison term in a secure facility close to the area in which they will be released. They will receive counseling and risk assessment, housing assistance, drug treatment and other services to reduce the likelihood of re-offending and returning to custody.

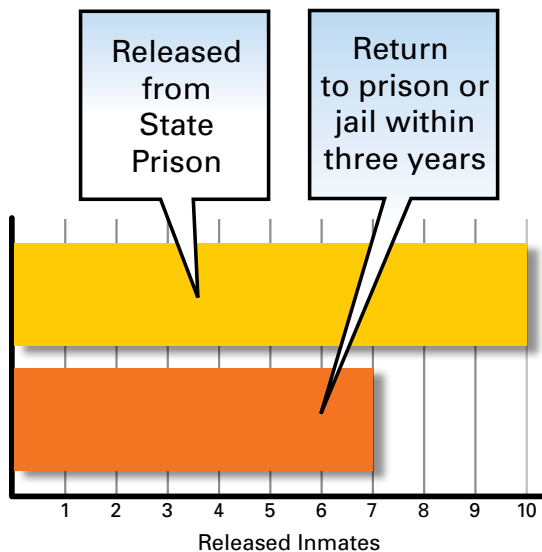
A second feature of the proposed state-local partnership addresses juvenile offenders. The CDCR Division of Juvenile Justice (DJJ) will implement changes to shift the population of juvenile offenders housed in state facilities to locals and provide resources sufficient to support county programs for juvenile offenders. Less than one percent of juveniles arrested in California end up in DJJ facilities; the rest are retained at the local level. The DJJ will reduce its population, so only the most serious and violent juvenile offenders are housed in DJJ facilities. The DJJ will accomplish this by narrowing the scope of intake and phasing out a portion of its current population. By keeping them locally, juvenile offenders will benefit from rehabilitative programs in their own communities and be closer to potential support networks. To facilitate this shift, the SGP includes funding to increase the capacity of local jurisdictions to house juvenile offenders.

In addition to these state-local partnership efforts, the CDCR must provide increased health care services, including medical, mental health, and dental services for all inmates. CDCR's health care system has long struggled to comply with three federal lawsuits: Plata v. Schwarzenegger, which has jurisdiction over the provision of medical services; Coleman v. Schwarzenegger, which has jurisdiction over the provision of mental health services, and Perez v. Tilton, which has jurisdiction over dental services. One reason for the continuing compliance issues has been a lack of available space to treat inmates with specialized needs, and house the necessary clinicians and support staff. The CDCR has attempted to mitigate some of the most egregious compliance issues by utilizing less-than-ideal settings, such as temporary housing situations and treatment rooms, but these solutions are not sufficient and do not provide a long term solution. Although all of the remedial actions the state will have to take to alleviate the health care situation have not yet been identified or approved by the courts, the SGP includes a funding set-aside for the facilities that will be a part of those actions.

The SGP includes \$10.9 billion for public safety:

- Expand capacity at existing facilities - \$2.7 billion (\$0.3 billion General Fund and \$2.4 billion lease-revenue bonds). This funding will add 16,238 additional prison beds at existing facilities and expand existing power, water, and wastewater treatment facilities to handle a larger population. Funding is also included for a new Southern California training facility.
- Local jails and juvenile facilities - \$5.5 billion (\$4.4 billion lease-revenue bonds or state-funded local debt service payments and \$1.1 billion local matching funds). To help local governments expand statewide jail capacity for adult and juvenile offenders, funding will be provided to help finance construction for 45,000 new jail beds and 5,000 beds for juvenile offenders.

## Recidivism Rates



**California has the highest recidivism rate in the nation.**

- Re-entry facilities - \$1.6 billion (lease-revenue bonds and/or contracting authority). In coordination with local governments, re-entry facilities will be constructed to provide 5,000 to 7,000 beds for inmates and revoked parolees.
- San Quentin Condemned Inmate Complex - \$117 million (lease-revenue bonds). This project has faced rising construction costs and additional funding must be provided to complete construction of this new secure facility for the state's condemned population.
- Health Care facilities - \$1.0 billion (lease-revenue bonds). In order to provide specialized beds and treatment and program space for mental health and dental services, and for medical services as directed by the court-appointed Receiver in Plata v. Schwarzenegger a \$1 billion set aside is included until cost estimates of specific projects become available from the Receiver.



*San Quentin*



## K-12 EDUCATION



K-12 schools will experience net increases in student enrollment of approximately 158,000 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 recent settlement in the Williams lawsuit, the Los Angeles Unified School District along with three other school districts must relieve the most critically overcrowded schools (also known 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 over 8,000 school sites continues to age, the need for modernization assistance to keep classrooms current continues to increase 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 \$29 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 on last November’s ballot is estimated to provide for approximately 32,000 new classrooms to house approximately 826,000 students and almost 79,000 renovated classrooms providing state-of-the-art facilities for over 2 million students.

The \$11.6 billion of new proposed state general obligation bonds will be matched by school districts pursuant to statutory requirements proposed for the 2008 election cycle as specified in the 2008 bond section below. Allowing for financial hardships where the local match can be waived and for programs such as Charter Schools and Career Technical Education where the match may be paid over a multi-year period, it is estimated that school districts will provide \$7.1 billion over the SGP planning period, with another \$5 billion that will be paid beyond the SGP period.

This \$7.1 billion local match, together with the \$11.6 billion of additional bonds proposed above, the Proposition 1D amount of \$7.3 billion, plus the expected local match of \$3 billion for Proposition 1D, provide total funding in the SGP period for K-12 schools of \$29 billion.

### **Accomplishments to Date-2006 Bond Provided \$7.3 Billion**

Proposition 1D, designed to meet needs through 2008-09, provided \$7.3 billion and is estimated to provide approximately 9,800 new classrooms housing almost 255,000 students and approximately 38,400 renovated classrooms to serve 989,000 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 small high schools and up to \$200 million is available for seismic safety projects.

Proposition 1D is administered by the Office of Public School Construction (OPSC), with policy oversight and local allocations approved by the State Allocation Board (SAB). Because Modernization assistance is a long-standing, eligibility based program, allocations to school districts from Proposition 1D are already in process. Allocations for New Construction, another long-standing, eligibility based program will be made when prior existing bonds for this purpose have been depleted. Regulations and grant funding cycles for new or revised competitive grant programs including Career Technical Education, Overcrowding Relief, Seismic Safety, Small High Schools, and Charter Schools have either already been approved by the SAB or are nearing completion and will be adopted by the SAB in the coming months. High Performance School Incentive regulations have already been approved by the SAB. Based on historical monthly demand for Modernization and New Construction, and allowing for competitive grant application periods where applicable, the OPSC estimates that the following amounts will be allocated from Proposition 1D in the current and budget years with remaining funds expected to be allocated in 2008-09 and on:

- Modernization - \$985 million in 2006-07 and \$1.1 billion in 2007-08
- Charter schools - \$250 million in 2007-08
- Career Technical Education - \$250 million in 2007-08
- Overcrowding relief in certain districts - \$500 million in 2007-08
- Incentives for high performance school design - \$50 million in 2007-08
- Joint use - \$25 million in 2007-08

### **2008 Education Bond Measure Proposes \$6.47 Billion**

The next bond measure, proposed for the 2008 election cycle, is estimated to fund construction through 2010-11 and provide approximately 12,800 new classrooms housing approximately 330,000 students and over 25,300 renovated classrooms providing state-of-the-art capacity for approximately 653,000 students. The bonds are proposed to be allocated as follows:

- New Construction - \$2.931 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 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.
- Modernization - \$1.539 billion to address rehabilitation needs for buildings that are over 20 to 25 years old recognizing that teaching techniques, building codes, and technology change over time. This component assists schools with major building system replacements that cannot be funded completely through normal deferred maintenance and operating funds, and is predicated on grant reductions calculated to revise the cost sharing ratio to 40-percent state / 60-percent local funding, similar to new construction.

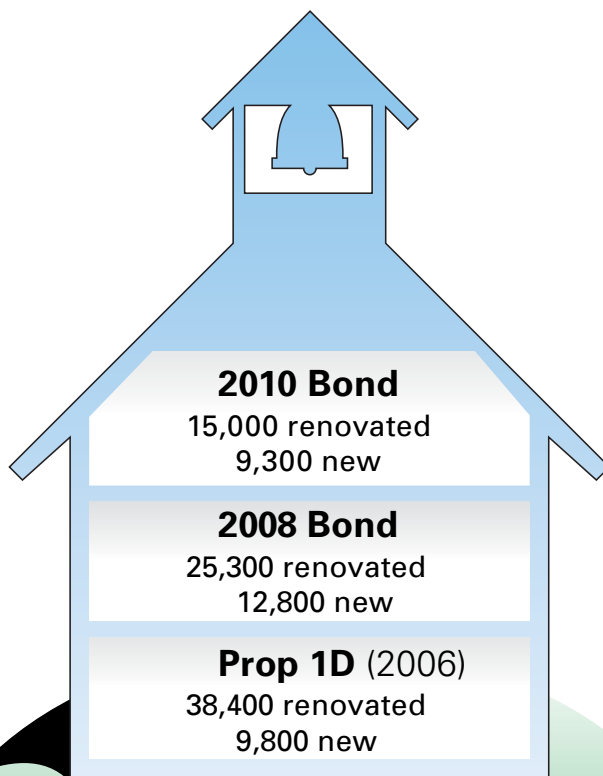


- Charter School - \$1.0 billion to provide dedicated funding for Charter Schools as a part of addressing the educational needs of K-12 students and housing enrollment growth. Charter Schools provide an added dimension to parental choices in ensuring an appropriate environment for their child's education. 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 - \$1.0 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 \$5.13 Billion

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 over 9,300 new classrooms serving 241,000 students and almost 15,000 renovated classrooms serving about 387,000 students.

- New Construction - \$2.13 billion
- Modernization - \$1 billion
- 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 funding of school facilities in the long run.

### New Classrooms

Prop 1D and proposed funding will provide approximately 32,000 new and 79,000 renovated classrooms.



## 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. In addition to funding for the compact, \$200 million was included in Proposition 1D for the expansion of the UC telemedicine program. Telemedicine provides video-conferencing for medical services in rural areas. This enables rural doctors to work with specialists in elite teaching hospitals and provide better treatment to patients. The infusion of infrastructure funding for this program is enabling all five medical schools to create or expand its telemedicine program.

Proposition 1D also provides \$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 beginning in 2006-07. The SGP proposes to continue this level of state support for the UC, CSU and CCC beyond 2007-08 through additional bond measures on the 2008 and 2010 ballots, totaling \$11.5 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. Furthermore, the SGP proposes \$70 million (lease-revenue bonds) to help fund new facilities that will place the UC at the vanguard of research into alternative fuels and energy conservation.

### **Accomplishments to Date**

The 2006 Budget Act appropriated \$1 billion to the higher education segments. This funding supported the construction or renovation of approximately 87 buildings. In addition, the 2007-08 Governor's Budget proposes funding for the higher education segments of approximately \$1.3 billion from Proposition 1D to support the construction or renovation of approximately 58 buildings. Included in the 2007-08 proposal is \$199 million for the expansion of the telemedicine programs at the five UC medical schools.



## **2008 and 2010 Education Bond Measures Propose \$11.5 Billion for Higher Education**

Proposed new SGP funding for higher education includes:

- University of California - \$2.8 billion (\$2.7 billion general obligation bonds and \$70 million lease-revenue bonds). This funding will help the UC system deal with 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. In addition, \$70 million (lease revenue bonds) are provided to ensure the UC becomes the premier institution for alternative energy and fuels research. This includes \$30 million for a new energy and nanotechnology Helios Research Facility to conduct research on the conversion of solar energy into a carbon-neutral form of energy and \$40 million to establish the Energy Biosciences Institute dedicated to bioscience research.
- California State University - \$2.7 billion (general obligation bonds). This funding will help the system deal with an increased enrollment of approximately 80,000 students over the ten years.
- California Community Colleges - \$6 billion (general obligation bonds). This funding will build or renovate over 300 facilities at the 110 colleges and 65 off-campus centers in the 72 districts of the community college system; a system that serves 2.5 million students.

## FLOOD CONTROL, WATER SUPPLY AND CONVEYANCE



California faces ongoing challenges to provide enough clean water for its growing population. Climate change will also impact water and flood management in the future. Current trends and climate models suggest a loss of at least a quarter of the snowmelt runoff by 2050. Conservation and new water storage can prepare for these changes.

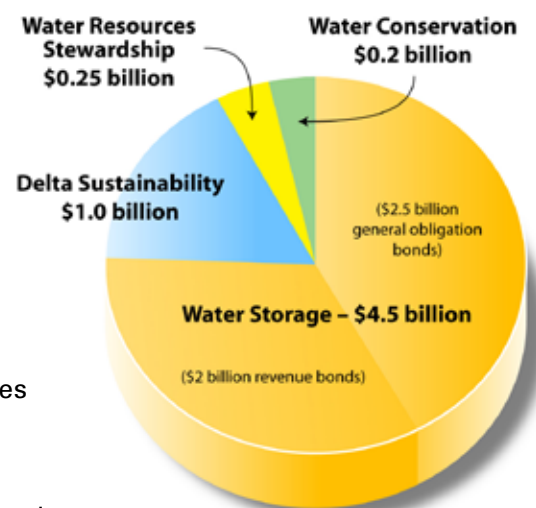
Substantial investments in water management activities are needed to support a vital economy, a healthy environment, and a reliable water supply. The SGP proposes \$5.95 billion to ensure reliable water supplies and cope with climate change effects:

- **Water Storage** - \$4.5 billion  
(\$2.5 billion general obligation bonds and \$2.0 billion revenue bonds)
- **Delta Sustainability** - \$1.0 billion  
(general obligation bonds)
- **Water Resources Stewardship** - \$250 million  
(general obligation bonds)
- **Water Conservation** - \$200 million  
(general obligation bonds)

### Accomplishments to Date

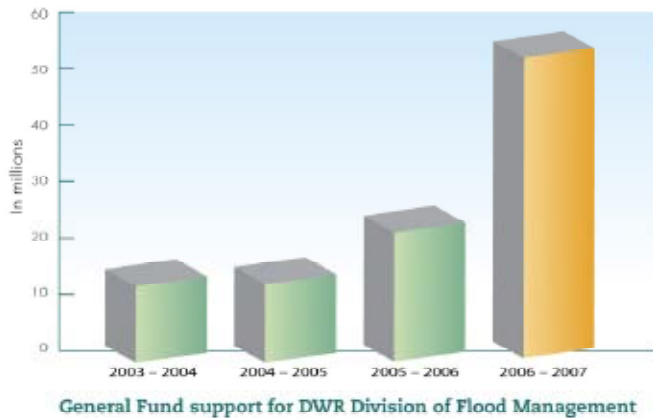
Three policy documents outline the issues and strategies to ensure California's water future:

- *California Water Plan Update (2005)* is a strategic plan for meeting future water demands. It recommends two initiatives to ensure reliable water supplies: integrated regional water management and improved water management systems.



- *Flood Warnings: Responding to California's Flood Crisis (2005)*, called for flood management improvements and reforms to reduce the potential for such disasters in California.
- *Progress on Incorporating Climate Change Into Management of California's Water Resources (2006)* provided the first detailed analysis of climate change on water and flood management.

To help put these plans into action, the Governor and Legislature have supported major new investments in water management and flood protection. General Fund support for the Department of Water Resources flood management program has grown from \$14.4 million in 2004-05 to \$55.3 million in 2006-07. Assembly Bill 142 provided an additional \$500 million to fund urgently-needed flood protection projects throughout the state.



The infrastructure package approved by the voters in November 2006 included water and flood measures in Propositions 1E and 84. These measures provided \$4.9 billion for flood management and approximately \$1 billion for integrated regional water management including wastewater recycling, groundwater storage, conservation, and other water management actions.

Following the Governor's emergency declaration for the flood system in February 2006, 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 last year's floods. An unprecedented effort to evaluate 350 miles of 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.

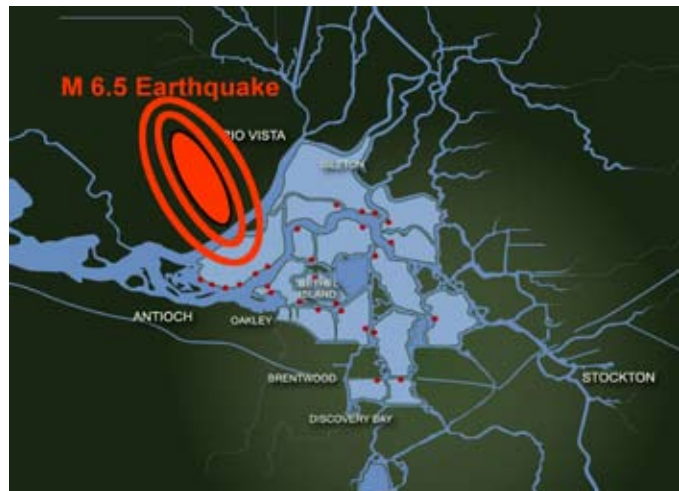
### 2008 Bond Measure for Water Supply, Flood Management and Conveyance

Two critical areas remain unaddressed that are vital to ensuring California has reliable water supplies and is able to cope with the effects that climate change will have on water supply and flood protection: storage and conveyance. 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 \$5.95 billion through 2016. Of this amount, general obligation bonds will provide \$3.95 billion and revenue bonds will provide \$2.0 billion. The proposal includes:

Water Storage - \$4.5 billion (\$2.5 billion general obligation bonds and \$2 billion revenue bonds). 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, help offset the effects of climate change and improve water supply reliability. Construction of new surface storage in the state would most likely occur near Sites on the west side of the Sacramento Valley and Temperance Flat on the San Joaquin River east of Fresno. Water supply yield from the proposed reservoirs could provide up to 500,000 acre-feet per year. Additional benefits could include better flood protection, water for fisheries



management and wildlife refuges, and improvements in drinking water quality. The water storage costs would be shared - \$2 billion in general obligation bonds would be used to finance the state's portion of the projects for benefits such as flood control, ecosystem restoration, and water quality improvements that serve the state in general. The non-state portion would be funded from \$2 billion in revenue bonds secured by contract payments from the water suppliers who would benefit from the new storage. In addition to investments in surface storage, \$500 million in general obligation bonds will be dedicated for grants to augment local investment in groundwater storage projects, providing an additional 500,000 acre-feet of annual yield.



*A magnitude 6.5 or greater earthquake in the Delta could result in 30 levee breaks and draw salt water from the San Francisco Bay into the Delta, cutting off water deliveries to 23 million Californians.*

Delta Sustainability - \$1.0 billion (general obligation bonds). Leveraging anticipated federal and local funding sources, this funding will help implement a sustainable resource management plan for the Delta. In September 2006, the Governor signed an executive order to develop a “durable vision for sustainable management of the Delta,” a unique natural resource that provides estuarine habitat for resident and migratory fish and birds including threatened and endangered species. It is a prime recreational and cultural destination as well as California’s most significant source of drinking and agricultural water. However, scientists have affirmed that the current health of the Delta’s ecosystem and its use as a reliable water conveyance corridor are not sustainable over the long-term. These investments would pay a portion of the public benefit costs and leverage significant water user investments in upgrading water conveyance infrastructure through the Delta. This collective investment will help reduce the seismic risk to water supplies derived from the Delta, protect drinking water quality and reduce conflict between water management and environmental protection.



*Salton Sea*

Water Resources Stewardship - \$250 million (general obligation bonds). This funding would 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 - \$200 million (general obligation bonds) This funding will augment \$1 billion provided by Proposition 84 and support the Integrated Regional Water Management (IRWM) program. IRWM encourages regional strategies to protect communities from drought, protect and improve water quality, and reduce dependence on imported water. The proposed funding will provide targeted water conservation grants to local communities. These investments in water conservation will yield about 200,000 acre-feet per year – enough to meet the water needs for about 400,000 families. Funded projects could also protect water quality, conserve energy, reduce urban and agricultural runoff, and reduce urban effluent.



# TRANSPORTATION



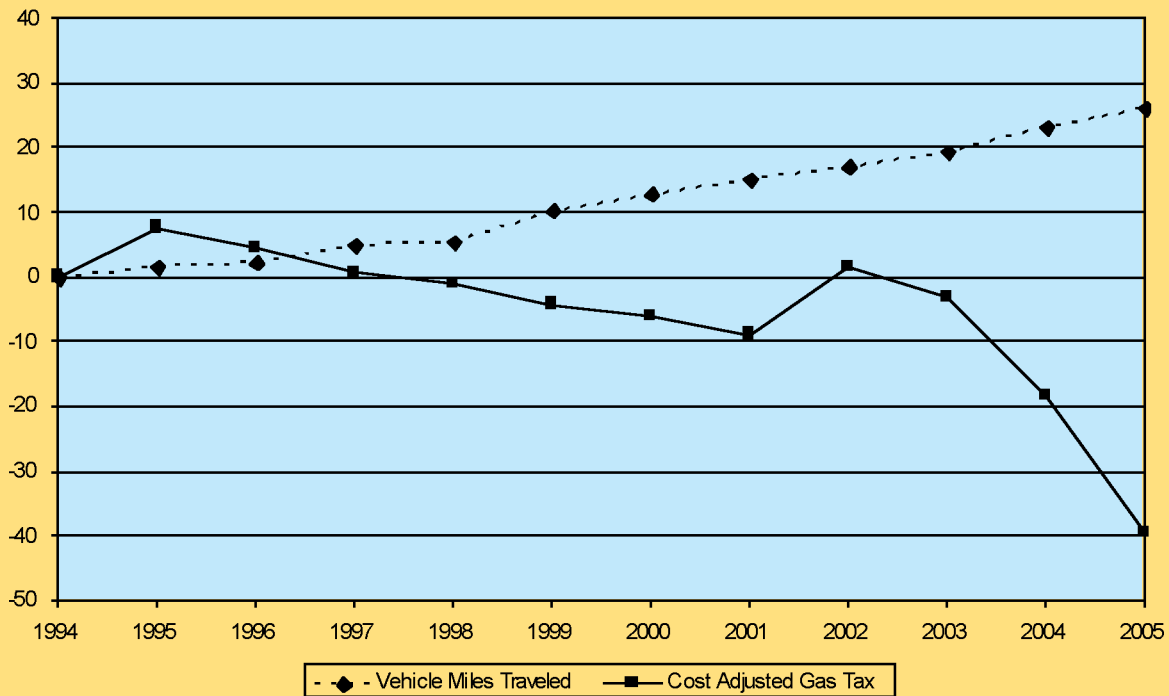
The transportation component of the Strategic Growth Plan is the cornerstone of a 20-year vision to rebuild and maintain a transportation system that can keep pace with California's growing population and economy. Boosted by voter approval of Propositions 1A and 1B on the November 2006 ballot, investment in long-overdue transportation improvements will help overcome decades of chronic underinvestment in one of the state's most important economic assets. However, construction will be delayed and \$1 billion more costly if the design-build authority requested by Caltrans to streamline design and permitting for transportation projects is not authorized. The Administration will be re-introducing legislation seeking design-build authority in conjunction with appropriation of Proposition 1B funding.

Additionally, the \$19.9 billion in general obligation bonds authorized in Proposition 1B represents only one-fifth of the funding available for transportation infrastructure investments. If leveraged successfully with federal, local and private-sector resources, Proposition 1B funds could produce over \$100 billion in total funding for traffic congestion relief and goods movement over the next 10 years. Maximizing the use of Proposition 1B dollars necessitates additional statutory authority to require matching funds and enter into public-private partnerships. The Administration will be re-introducing legislation seeking expanded authority to enter into public-private partnerships in conjunction with the appropriation of Proposition 1B funding.

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, cause revenue sources to fall short of the state's transportation system needs. Consequently, chronic underinvestment increases congestion and has resulted in California having some of the most distressed highway and road conditions in the United States.



**Figure 3**  
**PERCENT CHANGE IN TRAVEL AND TRANSPORTATION REVENUES**  
 Adjusted for Construction Costs



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. 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 3, the ongoing revenue shortfall for both new construction and maintenance at the state and local levels causes the state's transportation system to fall further and further behind each year relative to needed improvements.

Recognizing these structural realities, the Administration has developed the transportation element of the Strategic Growth Plan to better leverage investment in the state's transportation system, improve utilization of existing assets and improve maintenance. The integration of these activities will reduce congestion levels over the next decade while accommodating future population growth and facilitate continued economic growth. The Administration's original proposal was estimated to reduce congestion by 18 percent. Caltrans estimates that the plan as currently funded will reduce congestion an overall 11.0 percent from 2005 levels by 2015-16. The Administration proposes to maximize the leverage of state and local funding with public-private partnerships and achieve a minimum of 14.5 percent congestion reduction.

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

**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 green house gases from activities related to port operations and freight movement. Also included is \$100 million for port security improvements. The Strategic Growth Plan 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.

**Accomplishments to Date**

The Governor's Budget proposes a total of \$7.7 billion in appropriations from these bonds to be allocated to projects over the next three years. Additionally, \$523 million is proposed to be appropriated for high-benefit projects that are ready to construct in 2006-07. While many of the programs funded by Proposition 1B bonds are new and will require implementing legislation,

project nominations, based on the guidelines already adopted by the California Transportation Commission (CTC) for the corridor mobility program, are due by January 15, 2007 from local transportation authorities and from Caltrans. Proposition 1B requires the CTC to select projects by March 1, 2007. The CTC has also adopted guidelines for the programming of the \$2 billion for the State Transportation Improvement Program (STIP) and the \$1 billion for State Route (SR) 99. Regional Transportation Agencies and Caltrans will submit project proposals in April 2007 for the STIP and by January 16, 2007 for SR 99. The Administration is also delivering the State Goods Movement Action Plan, which will help guide the use of the \$2 billion in trade corridor project funding.

Other programs will begin implementation later in the spring or in 2007-08. As projects are selected for funding, appropriation levels and expenditure estimates will need to be adjusted. Four Proposition 1B programs are not reflected in the Governor’s Budget (Intercity Rail, Transit Security, Trade Infrastructure Air Quality, and Port Security) because the Administration is considering program implementation approaches and gathering information on funding needs. It is expected that proposals to appropriate bond funds for these programs will be made in the Spring Finance Letter process or in later budget cycles as needs are demonstrated and program implementation details are worked out.

Spending proposed in the Governor’s Budget from Proposition 1B is summarized in Figure 4.

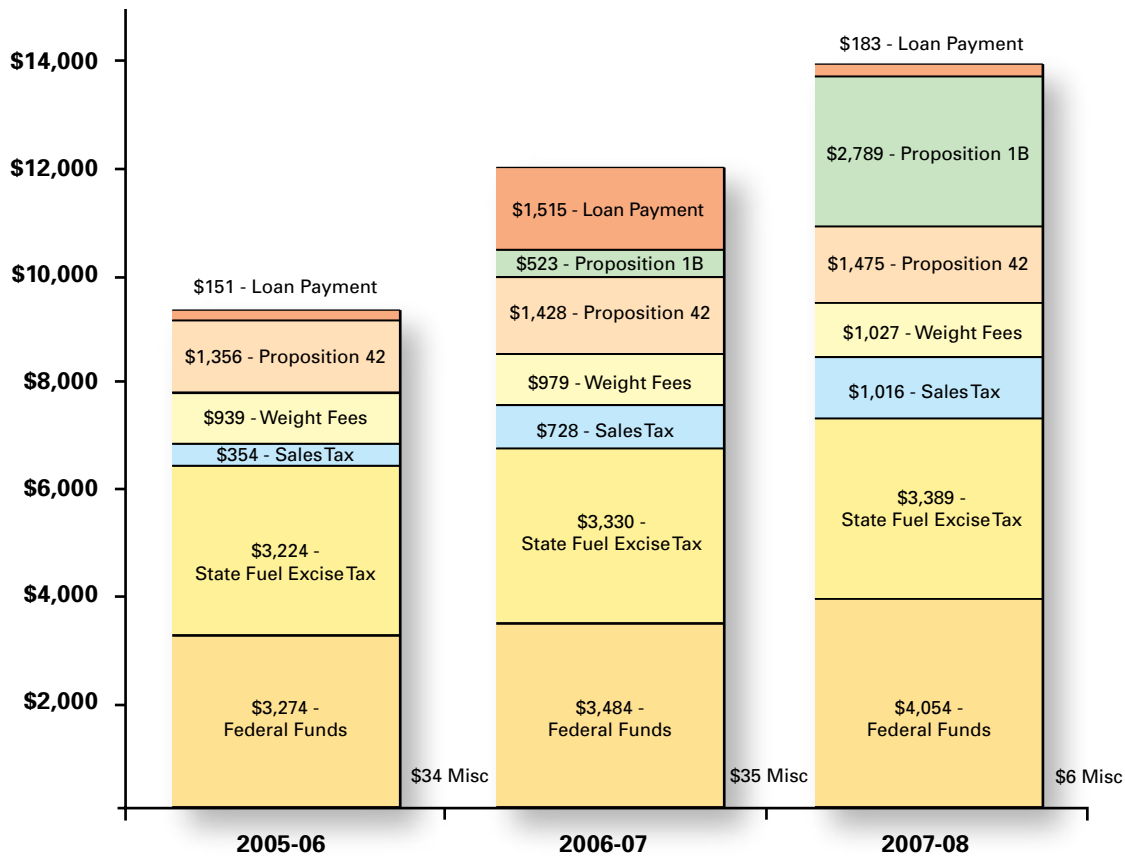
The Administration is proposing legislation that will ensure that this historically large investment in transportation is used for the projects that produce the most congestion relief, safety, pollution reduction, and improvement of system operation. Legislation will require agencies responsible for these programs to ensure that projects are evaluated objectively for potential performance, that there are sufficient funds to construct, operate and maintain the projects, that the public has substantial opportunities for input, and that performance is documented and reported on an ongoing basis. Competitive programs will provide priority to projects that leverage more matching funds and can be completed sooner.

**Figure 4**  
**PLANNED PROPOSITION 1B IMPLEMENTATION**  
(Dollars in Millions)

	2006-07*	2007-08	2008-09	2009-10	Proposed 2007-08 Appropriations
Corridor Mobility	\$100	\$317	\$712	\$1,090	\$2,119
Transit		\$600	\$350	\$350	\$1,300
State Transportation Improvement Program	\$262	\$340	\$287	\$408	\$1,035
Local Streets & Roads		\$600	\$300	\$150	\$1,050
Trade Infrastructure	\$15	\$170	\$255	\$255	\$680
State Highway Operation and Protection Program	\$141	\$403	\$102	\$13	\$518
State/Local Partnership		\$170	\$166	\$166	\$502
Grade Separations		\$55	\$60	\$59	\$174
Highway 99		\$28	\$44	\$99	\$171
School Bus Retrofit		\$97	\$96	\$7	\$97
Local Seismic	\$5	\$9	\$13	\$17	\$39
<b>Total Appropriations</b>	<b>\$523</b>	<b>\$2,789</b>	<b>\$2,385</b>	<b>\$2,614</b>	<b>\$7,685</b>

\*2006-07 expenditures to be proposed in separate legislation

**Figure 5**  
**STATE TRANSPORTATION REVENUES**  
(Dollars in Millions)



The Governor’s Budget proposes to use a combination of the tribal gaming revenues and \$205 million in federal funds received for past emergencies and reallocated from other states for additional pavement rehabilitation projects in the State Highway Operations and Protection Program in 2006-07 and 2007-08. Additionally, the Budget adds \$85 million from existing resources to increase ongoing maintenance of state highways.

The new bond 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 \$14.75 billion in capital spending in 2007-08. In the next ten years, the transportation component of the SGP is projected to result in 515 new High Occupancy Vehicle lanes, 700 new highway lane-miles, 4,760 miles of rehabilitated lanes, 480 miles of new commuter lines, 240,000 more transit riders, and a 120-percent increase in intercity rail riders.

The increase in resources provided by the Proposition 1B bonds and other transportation resources is displayed in Figure 5.

**Public-Private Partnerships and Design-Build**

Legislation approved in the last session authorizing the use of public-private partnerships was not sufficient to allow effective use of public-private partnerships to bring substantial private capital and savings to transportation projects. Additionally, legislation providing general design-build authority was not enacted. The public-private partnership legislation limited use to a few projects that primarily serve large trucks and that require individual approval by the Legislature. There are significant opportunities to bring substantial new resources into the state through user fees and private-sector project delivery and operation.

Many forms of public-private partnerships have been developed worldwide and are increasingly being used by other states to substantially increase current capital investment and provide for long-term efficiencies and better performance in the operation of public infrastructure. Broad authorizing legislation, leveraging the Proposition 1B bond funds and authorizing tolls, container fees or other user fees, could bring in as much as \$17 billion to fund goods movement projects, construct high occupancy/toll lanes, and fund pollution-reduction projects associated with goods movement. The legislation must allow substantial flexibility for administering agencies to negotiate the best possible deals for the state. The legislation should also authorize public-public partnerships and public-private partnerships that do not involve user tolls but provide for performance-based payments from public funds. Caltrans estimates these arrangements could provide an additional 3.5-percent reduction in congestion and 210 more highway lane-miles over the performance outcomes that can be achieved without these new financing and project delivery tools. Without such flexibility, it is likely that these potentially large resources will not be available to California, and congestion and pollution in urban areas-especially near the state's major ports-will not be materially improved.

### **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 distressed pavement has increased from roughly 21 percent of the total system in 2001 to 27 percent in 2006, 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 Department's 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 in the bonds 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.



## 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 January 2007, the Judicial Council has completed 18 court facility transfers from 11 counties. The Administrative Office of the Courts (AOC) is working with counties to transfer approximately 100 additional court facilities by the end of 2007.

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. Because of a lack of courtroom space, 23 court facilities are in trailers, one quarter of courtrooms have no room for a jury, 41 percent have no way to bring in-custody defendants into courtrooms without using public hallways and 78 percent do not have adequate access for people with disabilities.

The SGP proposes \$2 billion of new general obligation bond authority to address these infrastructure issues. While this amount will not fund all facility needs identified by the AOC over the next decade, it will provide immediate funding to handle the most critical infrastructure issues. In addition, this funding will enable the courts to significantly 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 United Kingdom and elsewhere, design-build-operate contracts in which the private sector constructs and operates a court building in exchange for lease payments.

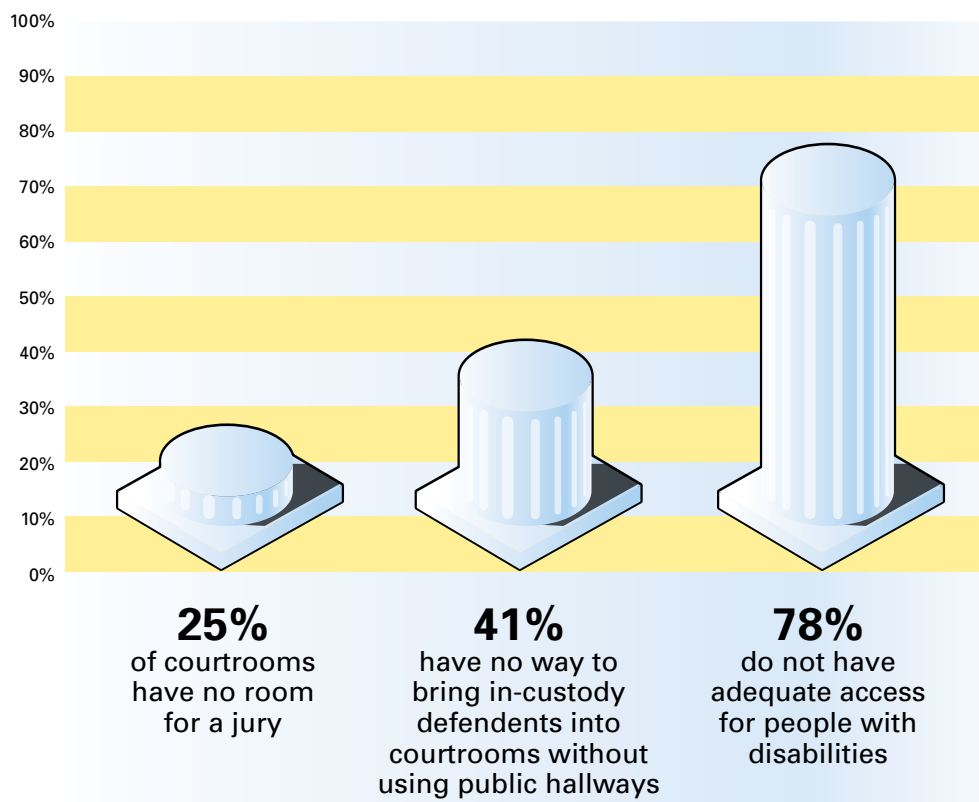
With an asset inventory as large as the court system’s, there are very likely many opportunities for successful public-private partnerships that would increase the resources available to the court system for its facility needs. Because of the formative nature of the court system’s public-private partnership efforts, it is difficult to estimate the amount of resources that will be leveraged. However, \$2 billion over the next several years appears to be a reasonable target.

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.

### Accomplishments to Date

The Judicial Branch continues to transfer local court facilities to the state to ensure consistency in the provision of justice and to ensure that facilities will be managed in a way that provides safe and secure courts. The 2006 Budget Act appropriated \$66.3 million dollars for the renovation, acquisition, and design of four trial court facilities. The Governor’s Budget proposes a total of approximately \$20.0 million dollars for ongoing phases of court facilities projects, as well as, the acquisition and site selection of four new trial court facilities.

## Lack of Courtroom Space



## OTHER NATURAL RESOURCES



In recent years, California voters have approved a series of bonds to preserve and enhance the state's natural resources. Propositions 12, 13, 40 and 50 have made available a total of \$10.1 billion dollars that have been used by local governments and state agencies for a wide variety of activities such as water conservation, acquisition of land to protect wildlife habitats, and restoration of damaged ecosystems.

In November 2006, Proposition 84 was approved by the voters authorizing an additional \$5.4 billion in general obligation bonds for natural resources purposes. These new bond funds will enable the state to continue investing in important projects targeted to improve the state's water quality and drinking water availability, flood protection, state and local parks, coastal and ocean protection, and habitat conservation.

### **Accomplishments to Date**

To initiate the implementation of Proposition 84, the Governor's Budget proposes the appropriation of more than \$1 billion in bond resources for activities in 18 state departments, boards, and conservancies. Highlights of the proposed funding include:

- \$28.3 million for continued implementation of the Tahoe Conservancy's Environmental Improvement Program, which will help preserve the world renowned clarity of North America's largest alpine lake.
- \$8.4 million for urban forestry and biomass projects proposed by the Department of Forestry and Fire Protection. These projects will have a positive impact on global warming by reducing the state's emissions of green house gases.

- \$47.2 million for activities of the Department of Fish and Game to restore Bay-Delta and coastal fisheries. An additional \$10.9 million will be used for salmon and steelhead fishery restoration. These expenditures will aid in the recovery of a number of California's threatened and endangered fish species.
- \$119.1 million for projects implemented by the Wildlife Conservation Board to preserve and protect forests, wildlife habitat, rangeland, grazing land and grasslands, and oak woodlands.
- \$85.4 for projects to be carried out by the State Coastal Conservancy, including \$9.7 million for projects to enhance the Santa Ana River Parkway, \$23.7 million for the San Francisco Bay Area Conservancy Program, \$9.7 million for projects on Monterey Bay, and \$6.8 million for projects on San Diego Bay. All of these efforts will help protect the scenic beauty, recreational opportunities, and economic vitality of California's 1,100 miles of magnificent coastline.
- \$28.5 million for the Ocean Protection Trust Fund, enabling the Ocean Protection Council to expand its efforts to preserve and protect California's unique ocean resources and its diverse marine life.
- \$567.7 million for projects administered by the Department of Water Resources, including \$155.8 million for Integrated Regional Water Management projects that will improve and enhance California's use of its natural water resources, and \$275.6 million for a wide array of expenditures to improve flood protection around the state.
- \$111.4 million for activities of the State Water Resources Control Board, including \$75.7 million to leverage federal funds for infrastructure investments to prevent pollution of drinking water supplies and \$14.6 million for matching grants to local agencies to reduce storm water contamination of rivers, lakes and streams.



# 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 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, adopted by the voters in November 2006, 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 will start to be 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.



### Accomplishments to Date

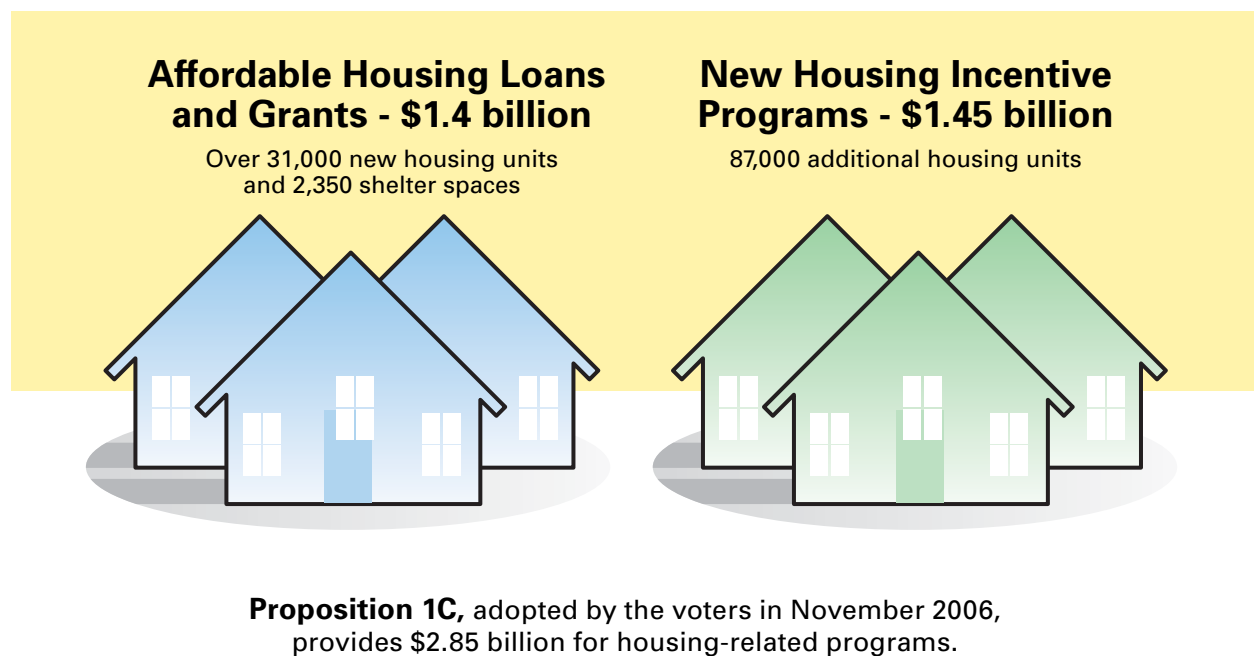
Most of the Proposition 1C funds are available to the Department of Housing and Community Development (HCD) immediately, without further legislative action. Awards totaling \$160 million are expected in 2006-07. The Budget Governor's reflects \$653 million of awards for these programs in 2007-08.

Since many of the current Proposition 46 programs will receive funding from Proposition 1C, HCD will get several Proposition 1C notices of funding availability (NOFAs) "on the street" quickly – in January, 2007. January notices are planned for the CalHome program, the Multifamily Housing programs, and for the Farmworker programs; and in March, 2007, for the BEGIN and Self Help programs. Proposition 1C also contains several new programs that require significant interdepartmental coordination to determine program components. HCD staff has been meeting with the California Department of Parks and Recreation and Caltrans to design those new programs. Legislation will be proposed in conjunction with the Governor's Budget to guide implementation of these programs.

### Proposition 46

During 2006-07 and 2007-08, the remaining \$344.4 million from this \$2.1 billion bond is expected to be awarded. This bond has already assisted in the creation or permitting of over 100,000 housing units and will help finance over 30,000 housing units with the remaining funds.

The Administration will continue to support structural changes in planning law, environmental law, redevelopment law, and building standards to facilitate more affordable housing creation in areas close to jobs and developed infrastructure. Structural changes could increase the supply of affordable housing more than the state can through subsidy programs.



## 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.

The SGP proposes \$2.3 billion (lease-revenue bonds) and \$300 million (general obligation bonds) of new financing authority, as well as \$2.2 billion of special funds to address the state's critical facility needs. A few of the more significant features of the bond funding include:

- Department of Forestry and Fire Protection - \$600 million to replace or renovate 75 emergency response facilities, including fire stations, air attack bases, and conservation camps.
- Department of Mental Health - \$500 million for additional capacity to meet the requirements of Jessica's law.
- Department of Justice - \$400 million for a new DNA laboratory.
- Seismic Retrofit of Existing State Buildings - \$300 million to complete the renovation of 29 facilities.
- State Special Schools - \$100 million to replace or renovate classrooms and dormitories at the School for the Blind and School for the Deaf.

### **Accomplishments to Date**

The 2006 Budget provides approximately \$300 million to improve and expand other public service infrastructure. This amount includes:

- \$163 million for the Department of Forestry and Fire Protection to replace old fire stations and other critical emergency response facilities.
- \$66 million to renovate and construct new kitchen facilities at various state hospitals.
- \$18 million for the Department of Motor Vehicles to address health and safety issues at existing state office buildings.
- \$9 million for the Department of Veterans' Affairs to improve facilities for Veterans at Yountville.

Details underlying this other public infrastructure, as well as the larger infrastructure components of the SGP, will be laid out in the 2007 Five-Year Infrastructure Plan. That plan will be published by March 1, 2007.

## ACCOUNTABILITY



To assure that public funds are utilized as efficiently as possible and in a manner consistent with the stated intent of already authorized and proposed future bond measures, firm accountability requirements will govern the expenditure of funds. Prior to any funding being expended from existing or future bonds, the responsible state agencies must develop performance and outcome measures for each program and project that would be funded from the bonds. Regular audits will be conducted to ensure that funds are being allocated according to those outcome criteria and that the implemented programs and projects did in fact achieve the intended outcomes. It is imperative that the public be able to access this information. 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, will be made readily available to the public.

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## 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. Last year's original proposal for a Strategic Growth Plan proposed a 6-percent cap on the state's debt service ratio (the percentage of General Fund revenue committed to making debt service payments). However, at that time, the state was still facing a structural budget deficit. But this budget does not propose to spend more on ongoing programs than the state receives from ongoing revenues.

In 2009-10, the state will have made its final payment on the Economic Recovery Bonds (ERBs). Payment on those bonds is about 1.5 percent of General Fund revenues. The revenue dedicated to paying the ERBs is not dedicated to any other expenditure when the ERBs are retired. Consequently, that revenue could be allocated toward debt service without adversely affecting the ability of the General Fund to continue supporting other state programs. Since debt service in the year prior to repayment of the ERBs will account for slightly more than 5 percent of the General Fund revenue, a debt service ratio of 6.5 percent is affordable. Debt service under the SGP will remain within this affordability limit. Figure 6 displays the state's debt payments and debt ratio into the future under the SGP.

**Figure 6**  
**STRATEGIC GROWTH PLAN**  
**DEBT AFFORDABILITY**  
(Dollars in Millions)

Year	Base			Strategic Growth Plan	
	Revenue	Debt Service	Debt Service Ratio	Debt Service	Debt Service Ratio
2006 - 07	\$94,519.0	\$4,071.5	4.31%	\$4,071.5	4.31%
2007 - 08	101,277.0	4,690.5	4.63%	4,690.5	4.63%
2008 - 09	105,187.0	5,352.4	5.09%	5,356.3	5.09%
2009 - 10	113,175.0	6,210.9	5.49%	6,269.0	5.54%
2010 - 11	120,536.0	7,053.6	5.85%	7,268.8	6.03%
2011 - 12	128,671.0	7,413.9	5.76%	7,933.1	6.17%
2012 - 13	136,197.0	7,553.4	5.55%	8,496.4	6.24%
2013 - 14	144,405.0	7,685.7	5.32%	9,087.2	6.29%
2014 - 15	151,625.3	7,782.1	5.13%	9,629.2	6.35%
2015 - 16	159,206.5	7,727.1	4.85%	9,957.2	6.25%
2016 - 17	167,166.8	8,004.0	4.79%	10,449.8	6.25%
2017 - 18	175,525.2	8,047.1	4.58%	10,677.4	6.08%
2018 - 19	184,301.4	7,742.4	4.20%	10,452.0	5.67%
2019 - 20	193,516.5	7,754.4	4.01%	10,527.6	5.44%
2020 - 21	203,192.3	7,505.3	3.69%	10,329.3	5.08%
2021 - 22	213,352.0	7,517.3	3.52%	10,389.2	4.87%
2022 - 23	224,019.6	7,451.2	3.33%	10,368.1	4.63%
2023 - 24	235,220.5	7,388.8	3.14%	10,338.9	4.40%
2024 - 25	246,981.6	7,396.9	2.99%	10,346.2	4.19%
2025 - 26	259,330.6	7,397.2	2.85%	10,345.6	3.99%

**Assumptions:**

Sales are based on the estimated needs or evenly spread if no needs data was available.

No High Speed Rail bonds are sold.

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.



# APPENDIX A

## STRATEGIC GROWTH PLAN SOURCES OF FUNDING 2006-2016

### PUBLIC SAFETY (dollars in billions)

	Amount	TOTAL
<b>Proposed New Bonds</b>		\$9.5
• Lease Revenue Bonds—to add capacity.	2.4	
• Lease Revenue Bonds or State-funded local debt service payments—to help local governments expand statewide jail capacity for adult and juvenile offenders.	4.4	
• Lease Revenue Bonds and/or contracting authority—coordinated funding effort with local governments to construct re-entry facilities.	1.6	
• Lease Revenue Bonds—to provide specialized beds and treatment and program space for medical and mental health and dental services.	1.0	
• Lease Revenue Bonds—to provide additional funding to complete construction of the new secure facility for the condemned at San Quentin.	0.1	
<b>Existing Funding Sources:</b>		\$0.3
• General Fund—to add capacity.	0.3	
<b>New Funding Sources:</b>		\$1.1
• Local match—from local governments for the adult and juvenile capacity expansion.	1.1	
<b>Total all funding sources</b>		<b>\$10.9</b>

## EDUCATION — K-12

(dollars in billions)

	Amount	TOTAL
<b>Proposed New Bonds</b>		\$11.6
<ul style="list-style-type: none"> <li>• General Obligation Bonds—to be placed on the 2008 and 2010 election ballots.</li> </ul>	11.6	
<b>Existing Funding Sources:</b>		<b>\$17.4</b>
<ul style="list-style-type: none"> <li>• General Obligation Bonds—Proposition 1D bonds</li> <li>• Local match—to provide capacity and modernization. The State Allocation Board requires a match to the state bond dollars applied to a project.</li> </ul>	7.3 10.1	
<b>New Funding Sources:</b>		<b>\$0.0</b>
<ul style="list-style-type: none"> <li>• N/A</li> </ul>		
<b>Total all funding sources</b>		<b>\$29.0</b>

## EDUCATION — HIGHER EDUCATION

(dollars in billions)

	Amount	TOTAL
<b>Proposed New Bonds</b>		\$11.6
<ul style="list-style-type: none"> <li>• Lease Revenue Bonds—to fund the state portion of the University of California’s (UC) alternative energy and fuel research facilities.</li> <li>• General Obligation Bonds—to provide UC infrastructure funding on the 2008 and 2010 election ballots.</li> <li>• General Obligation Bonds—to provide California State University infrastructure funding on the 2008 and 2010 election ballots.</li> <li>• General Obligation Bonds—to provide the California Community Colleges infrastructure funding on the 2008 and 2010 election ballots.</li> </ul>	0.1 2.75 2.75 6.0	
<b>Existing Funding Sources:</b>		\$10.1
<ul style="list-style-type: none"> <li>• General Obligation Bonds—Proposition 1D funding.</li> <li>• UC and CSU campus funds—estimated campus funding (e.g., gifts, endowments) that will be provided to supplement state funded projects.</li> </ul>	3.1 7.0	
<b>New Funding Sources:</b>		\$0.0
<ul style="list-style-type: none"> <li>• N/A</li> </ul>		
<b>Total all funding sources</b>		<b>\$21.7</b>

# FLOOD CONTROL/WATER SUPPLY

(dollars in billions)

	Amount	TOTAL
<b>Proposed New Bonds</b>		<b>\$6.0</b>
• General Obligation Bonds—additional ground and surface water storage.	2.5	
• Revenue Bonds—additional surface water storage—will be paid by water contractors.	2.0	
• General Obligation Bonds—Delta sustainability to assure the reliability of the state’s major water supply systems.	1.0	
• General Obligation Bonds—to provide Water Resources Stewardship including funding for Klamath River, San Joaquin River, Sacramento River and its tributaries, and the Delta.	0.3	
• General Obligation Bonds—for water conservation grants to local communities that coordinate the planning of their shared water resources.	0.2	
<b>Existing Funding Sources:</b>		<b>\$25.0</b>
• General Obligation Bonds—Propositions 1E and 84	6.4	
• Federal Funds—federal share of the cost of projects.	5.2	
• Local match—local share of the cost of projects.	13.4	
<b>New Funding Sources:</b>		<b>\$0.0</b>
• N/A		
<b>Total all funding sources</b>		<b>\$31.0</b>

# TRANSPORTATION

(dollars in billions)

	Amount	TOTAL
<b>Proposed New Bonds</b>		<b>\$0.0</b>
• N/A		
<b>Existing Funding Sources:</b>		<b>\$87.3</b>
• General Obligation Bonds—Proposition 1B.	19.9	
• Constitutional Revenues—state and federal fuel excise tax and weight fees.	40.6	
• Proposition 42—protection granted by passage of Proposition 1A.	10.1	
• Federal Funds—federal earmarks for national trade corridors and other projects of national significance.	10.0	
• Local match—extended and new local transportation sales tax measures.	5.0	
• GARVEES—used in later part of plan to bond against federal funds.	1.0	
• Special Funds—Tribal Gaming Revenues.	0.7	
<b>New Funding Sources:</b>		<b>\$17.0</b>
• Public-Private Partnerships—projects such as Goods Movement capacity and air quality projects, HOT Lanes, and Toll Lanes.	16.0	
• Design-Build/Design Sequencing—savings derived from reduced design time on projects allowing for a shorter start to finish project timeline.	1.0	
<b>Total all funding sources</b>		<b>\$104.3</b>

# JUDICIARY

(dollars in billions)

	Amount	TOTAL
<b>Proposed New Bonds</b>		<b>\$2.0</b>
• General Obligation Bonds—to build new and renovate existing courts— may be used to leverage additional funds through public-private partnerships.	2.0	
<b>Existing Funding Sources:</b>		<b>\$0.0</b>
• N/A		
<b>New Funding Sources:</b>		<b>\$2.0</b>
• Public-Private Partnerships—to aid the court improvements.	2.0	
<b>Total all funding sources</b>		<b>\$4.0</b>

## OTHER NATURAL RESOURCES

(dollars in billions)

	Amount	TOTAL
<b>Proposed New Bonds</b>		<b>\$0.0</b>
• N/A		
<b>Existing Funding Sources:</b>		<b>\$3.1</b>
• General Obligation Bonds—Proposition 84 as follows:		
• Protection of rivers, lakes, and streams	0.9	
• Forest and wildlife conservation	0.5	
• Protection of beaches, bays, and coastal waters	0.6	
• Parks and nature education facilities	0.5	
• Sustainable communities and climate change reduction	0.6	
<b>New Funding Sources:</b>		<b>\$0.0</b>
• N/A		
<b>Total all funding sources</b>		<b>\$3.1</b>

## HOUSING

(dollars in billions)

	Amount	TOTAL
<b>Proposed New Bonds</b>		<b>\$0.0</b>
• N/A		
<b>Existing Funding Sources:</b>		<b>\$2.9</b>
• General Obligation Bonds—Proposition 1C	2.9	
<b>New Funding Sources:</b>		<b>\$0.0</b>
• N/A		
<b>Total all funding sources</b>		<b>\$2.9</b>



# OTHER PUBLIC SERVICE INFRASTRUCTURE

(dollars in billions)

	Amount	TOTAL
<b>Proposed New Bonds</b>		<b>\$2.6</b>
<ul style="list-style-type: none"> <li>• Lease Revenue Bonds—to address critical state infrastructure needs. These include, but are not limited to renovating, expanding or replacing emergency response facilities, mental health hospitals, schools for the blind and deaf and veterans homes.</li> </ul>	2.3	
<ul style="list-style-type: none"> <li>• General Obligation Bonds—to address seismic retrofit of state facilities.</li> </ul>	0.3	
<b>Existing Funding Sources:</b>		<b>\$2.2</b>
<ul style="list-style-type: none"> <li>• Special Funds—various special funds of state government limited to uses in specific program areas.</li> </ul>	2.2	
<b>New Funding Sources:</b>		<b>\$0.0</b>
<ul style="list-style-type: none"> <li>• N/A</li> </ul>		
	<b>Total all funding sources</b>	<b>\$4.8</b>

