



Cal-Tax Criteria for Evaluating Infrastructure Bonds

To assure California voters that hard-earned taxpayer dollars allocated for infrastructure investment are not wasted, critical reforms are necessary and historical criteria to guide borrowing must apply. Responsible financing and management of spending on these projects are critically important so that voters understand it is not business as usual with this new spending commitment for infrastructure. The California Taxpayers' Association urges the Governor and the Legislature to design a package that avoids mistakes of the past and does not rely on new taxes and fees. Cal-Tax suggests the following reforms accompany any debt proposal and that Cal-Tax's historical criteria (see below) be used to evaluate borrowing proposals. Failure to carefully manage and structure the spending plans could waste a substantial part of the tax dollars committed to these projects.

Avoid Tax and Fee Increases:

A tax, fee or tax-like fee increase response to this state's infrastructure problem is a grave error that could slow economic growth and jeopardize the project's funding source. For example, the 1991 California personal income tax rate increase was projected to produce more than \$2 billion in additional revenue, but the revenue did not materialize, remaining virtually flat until the temporary tax increase expired. Moreover, taxpayers in this state are already heavily taxed, paying an estimated \$130 billion in state and local taxes each year. Paying higher taxes and fees will make California a more-expensive, less-desirable place to live and operate businesses by increasing the cost of goods and services produced and sold in this state, making California industry less competitive with other states, and resulting in the further loss of jobs as investment moves out of California. It is also important to note that extended discussions of tax increase proposals in Sacramento send damaging signals to those who would invest in California.

Suggested Reforms to Accompany Debt Proposals:

1. ***Utilize More Cost-Effective Local Transportation Agencies.*** It will be critical to delegate substantially greater project delivery responsibility and transportation funding to local transportation agencies. Local agencies have a better track record than Caltrans in delivering projects faster and more cost effectively.

For a variety of reasons, Caltrans has been a bottleneck for state transportation projects. Administrative overhead and delays for Caltrans are staggering. The transportation problems facing California are too acute to rely on Caltrans for project delivery. To push additional substantial projects through Caltrans will produce slow, costly and ineffective results.

- a. The University of North Carolina has measured the performance of state highway systems for the past 14 years. A 2005 report shows that Caltrans is exceeded by only two states in inefficiency. In numerous measures in this study, Caltrans is a low-performing, high-cost operation. California spends seven times more than

the mean spending level of the other states for administrative expenses when measured on a costs-per-mile basis. The mean for the 50 states is \$7,965 per mile. Administrative costs for California are \$62,217 per mile.

2. ***Eliminate Funding for High-Speed Rail.*** Any bond allocation to high-speed rail is a complete waste of tax dollars. High-speed rail in California would be a massive \$50 billion to \$60 billion investment that is unrealistic, unnecessary and does not begin to approach a priority transportation need for the state. Rather, traffic congestion mitigation for urban and suburban commuters and improved transportation of goods in the state are a critical priority. If California makes a serious commitment to high-speed rail, it will take funding capacity away from high-priority projects, such as building highways, schools and higher education and water facilities.
3. ***Design/Build.*** Where possible, the state should use a design-build strategy for highways and other public facilities, which allows public agencies to negotiate a single, comprehensive project package, including design services, construction management, and general construction. For many projects design/build can speed project delivery and reduce cost. The economies achieved by this strategy are substantial for taxpayers who pay the bill. It is highly desirable for California to enact a practical and universal design/build bill.
4. ***Reform the Permitting Process.*** California's permitting process is slow, costly, duplicative, and manipulated by those who want to slow the process and increase costs.
 - a. Cost of rehabilitating flood control levees has grown from an average \$300 per linear foot to between \$5,000 and \$10,000 per foot. Much of this cost increase is a result of project delays and environmental mitigation. Taxpayers must be assured of reform before additional money is thrown at this important project.
 - b. Streamlined, systemwide permits for levee maintenance and repair would eliminate the need for literally hundreds of individual, site-by-site reviews that are a bureaucratic nightmare for local flood agencies. There must also be assurances that flood control dollars will remain dedicated to flood control purposes. Regulators should be prohibited from requiring these projects include environmental enhancements and unreasonable mitigation that go well beyond a "one-to-one" replacement of trees, vegetation and other wildlife habitat. Further, flood agencies should be allowed to perform flood work and mitigation simultaneously, rather than the current requirements that a project sit idle while mitigation is completed.

A Department of Water Resources white paper notes that a number of weakened levees pose a critical risk of flood damage. Those should be treated as an "emergency" just as they would after a breach, exempted from these reviews altogether and addressed immediately. Flood officials should also consider more effective and efficient means of flood control such as dam projects and better maintenance of flood channels. Taxpayers must be assured of reform before additional money is thrown at this important project.

- c. It is far too easy for activists and not-in-my-backyard (NIMBY) proponents to file lawsuits and slow down or stop projects. Moreover, activists and NIMBYs, because of the "private attorney general statutes" are able to file those lawsuits at no financial risk and indeed typically make large sums of money from the lawsuits. The potential exposure for frivolous lawsuits must be addressed upfront or this work will take decades longer than necessary and will cost multiples of what is the appropriate cost.

5. **Public-Private Partnerships.** Authorize state agencies to participate in public-private partnerships for infrastructure projects. These projects can include all or a combination of the following project phases: financing/design/construction/operation. The public agency role is to acquire permits at the start, and eventually after a fixed number of years, assume ownership of the project. These partnerships have more potential to quickly bring in new infrastructure funding than any other funding device. They are being much more extensively used in other states.
6. **Proposition 42.** Permanently close the loophole in Prop. 42, which will ensure that approximately \$1.5 billion a year (the sales tax on gas) goes to transportation.
7. **True Water Bond.** The last two statewide water bonds were land acquisition bonds with few, if any, water supply benefits. Any proposed new water bond for California must add new real water storage and real water conveyance facilities. Our population and our economy are continuing to grow and our water supply is falling behind.

Cal-Tax Criteria for Evaluating Bond Debt Proposals:

1. The project to be financed is a capital facility or infrastructure project and the bond funding will pay for land acquisition and capital costs, not for maintenance, operations, regional planning and other non-construction salaries or wages, or ongoing costs.
2. Non-G.O. bond financing is not a reasonable option.
3. The project costs are appropriately shared by future taxpayers because the project will have a useful life at least as long as the term of the bonds and future taxpayers will benefit from the facility that is built with the bond proceeds.
4. It is not appropriate for bond funds to pay for equipment, computers, or similar items that will not be useful for at least as long as the debt is outstanding.
5. For state bonds, projects funded must be of state-level concern and importance. State bonds should not pay for local projects that do not have significant extra-territorial impact.
6. Interest rates for indebtedness are not abnormally high and the overall state debt level will not be excessive.
7. If the bond issue is placed on the ballot by initiative, great care must be taken to ensure that special interest sponsors are not manipulating the initiative process for financial gain. A special interest should be challenged when using the initiative process for direct financial benefit.