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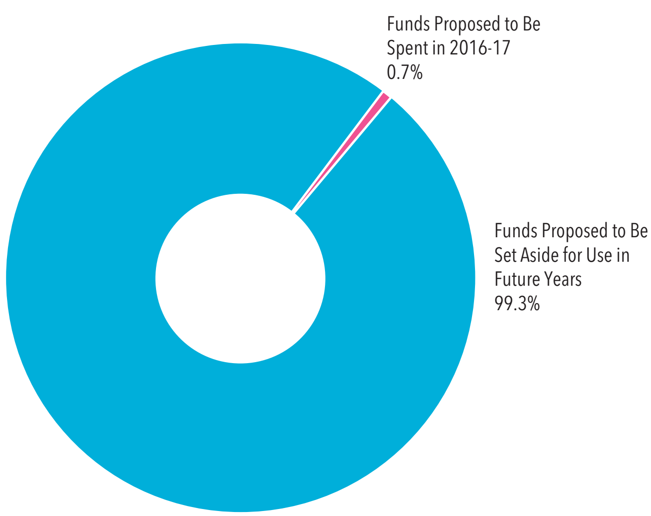
Governor's State Buildings Proposal Would Limit Critical Investments in California's Future

Making investments that foster a strong economy is core to the mission of state government. With the right policy choices, California's budget can be a tool for allowing more people to share in our state's prosperity. This year, California has an opportunity to boost investments in the foundation of a strong economy due to billions of dollars in discretionary revenues projected to be available in the 2016-17 fiscal year, which begins on July 1.[1] However, Governor Brown proposes to take most discretionary revenues off the table by depositing far more than required in state reserves and setting aside a large share of revenues for state buildings.[2]

The Governor's state buildings proposal, in particular, deserves scrutiny. His proposed 2016-17 budget would shift $1.5 billion from the state's General Fund into a new special fund.[3] These dollars would be used over several years to renovate and replace certain state office buildings. This proposal diverges from the more common practice of issuing lease-revenue bonds – money the state borrows and pays back over time – to finance such projects.[4] Although the Administration argues that using General Fund dollars would allow these projects to proceed more quickly than if the state were to issue bonds, the Governor proposes to spend *less than 1 percent* of the $1.5 billion during 2016-17.[5] In other words, just a fraction of the revenues set aside would actually be used in the coming fiscal year. In fact, only 20

Just a Fraction of the Dollars Proposed for State Buildings Projects Would Be Used in 2016-17

General Fund Revenues Set Aside in 2016-17 Under the Governor's Proposal = $1.5 Billion



Source: California Five-Year Infrastructure Plan 2016 percent of the General Fund dollars set aside for state buildings would be used by 2019-20.[6] Thus, "there is no reason that additional funds [beyond those proposed to be spent in 2016-17] would need to be appropriated in 2016-17," according to the Legislative Analyst's Office (LAO).[7]

By adopting the more common approach to financing state buildings projects – issuing bonds – California could boost investments that expand opportunity and contribute to a strong economy. Policymakers could, for example, use some of the $1.49 billion that would otherwise sit unused in 2016-17 to further invest in California's public colleges and universities, which provide a key pathway to economic mobility for state residents.[8] Lawmakers also could invest in the state's child care and development system, which currently reaches far fewer families than it did before the Great Recession because of deep state funding cuts. High-quality child care and preschool are not only necessary for parents to find and maintain employment, but can also help prepare children for school and boost their academic achievement.[9]

Issuing bonds for state buildings projects would require the state to pay interest on the money borrowed from investors. However, because interest rates are low, the difference in costs between borrowing and using direct appropriations from the General Fund to finance these projects "is relatively small right now," according to the LAO.[10] Moreover, the additional costs the state would incur through borrowing must be considered relative to the benefits that California could gain from using freed-up General Fund dollars to increase investments that strengthen the state's workforce and economy.

Paying for state buildings projects with bond funds rather than with General Fund dollars has another benefit: It would be more equitable. Bonds allow the state to spread the cost of long-lived facilities over many years. It would not be fair to ask today's taxpayers to bear the full cost of replacing and renovating state buildings when these facilities will be in service for many decades. Issuing bonds would ensure that taxpayers today *and in the future* contribute proportionately to the state's assets.

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1 Discretionary revenues exclude constitutionally required spending, reserves, and debt payments as well as spending required to maintain existing policies. These revenues are available for policymakers to allocate for any purpose. Legislative Analyst's Office, *The 2016-17 Budget: Overview of the Governor's Budget* (January 11, 2016), p. 8.

2 California Budget & Policy Center, *Governor's Proposed Budget Misses Opportunity to Make Critical Investments in Families and Communities* (January 2016).

3 The state General Fund accounts for revenues that are not designated for a specific purpose. Most state support for education, health and human services, and state prisons comes from the General Fund.

4 Lease-revenue bonds are a form of long-term borrowing that California has historically used to finance higher education facilities, prisons, and state office buildings. The state issues lease-revenue bonds to investors and pays them back with interest through lease payments, which are primarily financed through the state's General Fund.

5 The Governor proposes to use these funds – $10.1 million in 2016-17 – to develop "performance criteria" (essentially, preliminary plans) for a new building to replace the Department of Food and Agriculture Annex and to "study" how to renovate the State Capitol Annex and replace the Natural Resources Building.

6 Department of Finance, *California Five-Year Infrastructure Plan 2016*, p. 72. The Governor proposes to finance the construction of a new Natural Resources building through a "lease-to-purchase" approach, according to the Legislative Analyst's Office. See Legislative Analyst's Office, *The 2016-17 Budget: Overview of the Governor's Budget* (January 11, 2016), p. 15.

7 Legislative Analyst's Office, *The 2016-17 Budget: The Governor's State Office Building Proposal* (February 2016), p. 13.

8 California Budget & Policy Center, *From State to Student: How State Disinvestment Has Shifted Higher Education Costs to Students and Families* (May 6, 2014).

9 California Budget & Policy Center, *Starting Strong: Why Investing in Child Care and Development Programs Is Critical for Families and California's Economic Future* (November 2013).

10 Legislative Analyst's Office, *The 2016-17 Budget: The Governor's State Office Building Proposal* (February 2016), p. 13.