

Attachment 1

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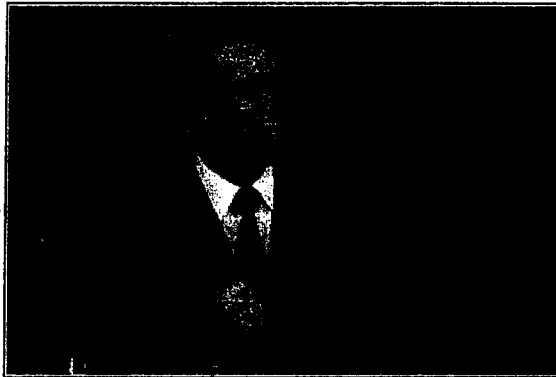
Press Release



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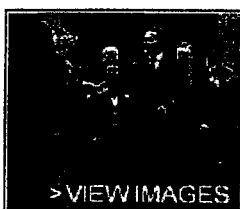
Governor Schwarzenegger Proposes Strategic Growth Plan for California's Future



Remarks

Governor Arnold Schwarzenegger, delivering his annual State of the State address before a joint session of the California State Legislature tonight, proposed a bold and comprehensive Strategic Growth Plan to invest in California's transportation, education, water, public safety and public service infrastructure to ensure the state is prepared to meet the needs of its people into the 21st century.

"A new California is coming whether we plan for it or not. We must build a California eager to meet the challenges of the 21st Century without reluctance or fear. Our plan must not only expand the concrete highways that connect Los Angeles to San Francisco and Stockton-but the digital ones that connect Stockton to Shanghai, Sydney and Seoul," said Governor Schwarzenegger. "We will need more roads, more hospitals, more schools, more nurses, more teachers, more police and fire, more water, more energy, more ports and the need is urgent. In recent decades, California has invested piecemeal, crisis by crisis, traffic jam by traffic jam. We can lay the foundation for the next generation, just as our predecessors did 50 years ago. I believe that together we can improve our schools, our roads, our environment, our health care and our future."



Over the next 20 years, California's population is expected to increase by as much as 30 percent and it is estimated the state faces more than \$500 billion in infrastructure needs over that same period. Governor Schwarzenegger's Strategic Growth Plan is the first phase of a 20-year investment to meet these expected needs for Californians. The plan leverages \$68 billion dollars in bonds over the next 10 years to invest more than \$222 billion in the state's infrastructure without raising taxes.

"We cannot spend more than we have; but at the same time we cannot afford costly delay in investing in critical infrastructure. Things will be tight, but funding our future is the fiscally

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responsible thing to do. Not to do so is to abandon the people," continued the Governor. "Our ability to pay for these investments is directly tied to the fiscal discipline of the past two years and that discipline must continue. The investments must go hand-in-hand with budget reform because autopilot spending will fly us into the ground, not into the future. I ask the Legislature to work with me on a new proposal, to work with me on harnessing private sector investment and to work with me to invest in California's future growth and prosperity."

The Governor also called upon the Legislature to adopt a debt ceiling to keep the state's debt service ratio below a prudent six percent. The Department of Finance's conservative projections estimate the increase in debt service costs as a result of the Strategic Growth Plan will be a change of about one percentage point. In addition, the Governor's plan is consistent with the user-pay principal, requiring beneficiaries of new infrastructure improvements to pay the costs of these improvements and it utilizes innovative financing mechanisms such as maximizing federal resources and public-private partnerships to fund and deliver projects.

The following details the specifics of the Governor's Strategic Growth Plan:

Transportation & Air Quality

Since the 1960s, the total number of registered vehicles in California has increased from 9 million to 30 million and vehicle miles traveled in the state have increased from 33.3 billion to 183.7 billion each year. The Department of Transportation expects a 35 percent increase in congestion over the next 10 years. The Governor's Strategic Growth Plan is designed to address these problems by reducing congestion by 18 percent over the next decade by building 1200 miles of new highway and HOV lanes in congested areas and adding 600 miles of mass transit.

To fund and protect this investment, the Governor's Strategic Growth Plan includes:

- \$107 billion total investment in transportation infrastructure over the next decade
 - \$47 billion from existing funding sources such as Proposition 42 and federal funds.
 - \$48 billion in new funding is proposed from leveraging existing funds.
 - \$12 billion in new bond funds to attract increased federal, local and private funding. These bonds would be approved by California voters in two \$6 billion authorizations in 2006 and 2008.
- Protecting Proposition 42 permanently through a constitutional amendment to eliminate the option for future governors and legislatures to suspend funding.
- Using design-build contracting and design-sequencing construction to deliver projects more quickly and efficiently.
- Pursuing public-private partnerships to complete projects such as high occupancy toll lanes, regular toll lanes, truck lanes and freight movement facilities where a predictable revenue stream will be created to re-pay capital investments.
- Road and port congestion produces pollution which decreases productivity and increases health care costs. For this reason, the Governor's plan also includes \$1 billion in bonds to be matched by \$1 billion in funding from other sources to reduce goods-movement related pollution.

Education

Over the next 10 years, a quarter of a million more students will be attending our California's schools and an increase of more than half a million students is projected for the state's colleges and universities. In addition, the more than 8,000 school sites in the K-12 system continue to age and require modernization while the growth in enrollment in higher education has created the need for more classrooms, libraries, labs and hundreds of new buildings. The Governor proposes constructing more than 2,000 small schools and 40,000 classrooms and modernizing another 141,000 in addition to significant construction and expansion at University of California, California State University and California Community College campuses.

To fund this investment, the Governor's Strategic Growth Plan includes:

- \$26.3 billion total investment in K-12 education over the next decade through general obligation bonds.
 - The initial \$7 billion bond would come before voters in 2006.
 - Subsequent bond measures are proposed for the general elections every two years beginning in 2008 and ending in 2014.

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- \$11.7 billion total investment in higher education over the next decade.
 - The plan calls for \$5.2 billion in bonds over the next five years, \$6.1 billion from 2011 to 2016 and \$400 million to fund the expansion of University of California telemedicine programs.

Water and Flood Control

In 1960 the California State Water Project (SWP) provided \$1.75 billion to build California's current water infrastructure. Today the SWP provides drinking water for 23 million Californians and irrigation for 750,000 acres of agricultural land. Little has been done since that time, when California's population was less than half of what it is today, to expand the state's water supply. In addition, the state's levee system has not been updated in decades leading to flooding in recent years. The Governor's Strategic Growth Plan will increase California's water supply to serve 8.5 million more people, support the agricultural industry and double the amount of flood protection in the Sacramento region.

To fund and protect this investment, the Governor's Strategic Growth Plan includes:

- \$9 billion in general obligation bonds to be issued in two installments, one \$3 billion installment in 2006 and \$6 billion in 2010.
- \$26 billion in non-state funding resources.
- Establishing a Water Resources Investment Fund for additional water management efforts.
- Implementing legislation to reform flood management and the financing of flood control improvements and to allow flood management projects to proceed more quickly.

Public Safety

State prisons are facing significant overcrowding resulting in unsafe conditions for staff and inmates. Local jails are similarly overcrowded leading to the early release of felons in those facilities and difficulty booking serious misdemeanants. The Governor's Strategic Growth Plan creates a groundbreaking partnership between state and local agencies to manage the inmate population while providing for two new prisons, a new crime lab, emergency response facilities and space for 83,000 prisoners at the state and local level over the next ten years.

To fund this investment, the Governor's Strategic Growth Plan includes:

- \$14.8 billion in total investment to protect public safety.
 - An initial \$6 billion bond for local jail construction to provide beds for approximately 45,000 offenders. This bond is proposed for the first five years.
 - A second \$6 billion bond in the second five years also for local jail construction.
 - \$1.1 billion in bonds to build new prisons and juvenile facilities for the California Department of Corrections and Rehabilitation.
 - \$600 million in bonds in the first five years and \$1.1 billion in bonds in the second five years to fund critical public safety projects in the Department of Forestry and Fire Protection, a DNA lab for the Department of Justice and to improve the Military Department's facilities.

Courts and Other Public Services

In 1997, legislation transferred the responsibility of funding trial court operations in California from the counties to the state. Many of the state's 58 superior courts are in need of security and facility improvements. To meet these needs, the Strategic Growth Plan includes new courts, renovations and expansions of courts. In addition, the Governor's plan includes funding to invest in other public service needs.

To fund this investment, the Governor's Strategic Growth Plan includes:

- \$1.8 billion in bonds over the next decade for trial courts, \$800 million in bonds for fiscal years 2006-07 through 2010-11 and \$1 billion in bonds for years 2011-12 through 2015-16.
- \$400 million in bonds over the next five years to seismically retrofit other high-risk state buildings and address health and safety needs at state park facilities.

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