LAO

OVERVIEW OF STATE BOND DEBT

This section describes the state's bond debt. It also discusses how the bond measure on the ballot, if approved by voters, would affect state costs to repay bonds.

STATE BONDS AND THEIR COSTS

What Are Bonds? Bonds are a way that governments borrow money. The state government uses bonds primarily to pay for infrastructure projects such as bridges, dams, prisons, parks, schools, and office buildings. The state sells bonds to investors to receive up-front funding for these projects and then must repay the investors over a period of time, typically a couple of decades. This is very similar to the way a family pays off a mortgage on their home.

What Are the Costs of Bond Financing? The state's total cost for a project is more if it pays for it with bonds than if it pays with cash. This is because it has to pay interest on the bonds. The amount of additional cost depends on the interest rate and how long it takes to repay the bonds. For example, if the state uses a 20-year bond with a 4 percent interest rate to pay for a project, the total cost is about 10 percent more expensive than paying in cash.

Most Bonds Must Be Approved by Voters. The California Constitution requires that most new bonds be approved by voters. These bonds usually are repaid from the state General Fund. (The General Fund is the account the state uses to pay for most public services, including education, health care, and prisons.)

BONDS AND STATE SPENDING

Current Amount of Bond Debt. The state currently is repaying about $80 billion of bonds. In addition, the voters and the Legislature previously have approved about $30 billion of bonds that have not yet been sold. Most of these bonds are expected to be sold in the next several years. The state currently is paying about $6 billion per year from the General Fund to repay bonds. The state will continue to pay a similar amount over the next few years. This is about 3 percent of the state's annual General Fund revenue, which is lower than the historical average of about 4 percent.

This Election's Impact on Debt Payments. There is one bond measure on this ballot—Proposition 1. If approved by voters, this measure would allow the state to borrow an additional $6.4 billion. The money would be used to build (1) more places for mental health and drug or alcohol treatment and (2) more housing for people with mental health, drug, or alcohol challenges. We estimate the cost to repay this new bond would be about $310 million each year for 30 years, or less than one-half of 1 percent of annual General Fund revenue.