Overview of State Bond Debt

L E G I S L A T I V E   A N A L Y S T ' S   O F F I C E

Presented to:
Senate Committee on Natural Resources and Water
Hon. Robert M. Hertzberg, Chair

Bond Overview

☑ ***What Are Bonds?*** Bonds are a way that governments and companies borrow money. The state government uses bonds primarily to pay for infrastructure projects. The state sells bonds to investors to receive "up-front" funding for these projects and then repays the investors, with interest, over a period of time.

☑ ***Why Are Bonds Used?*** A main reason for issuing bonds is that infrastructure typically provides services over many years. Thus, it is reasonable for people, both currently and in the future, to help pay for the projects. Also, the large costs of these projects can be difficult to pay for all at once.

☑ ***What Are the Main Types of Bonds?*** The two main types of bonds used by the state are general obligation (GO) bonds and revenue bonds. The state repays GO bonds using the state General Fund. The state often repays revenue bonds from other sources, such as fees paid by users of the funded project (such as from bridge tolls). GO bonds issued by the state have to be approved by voters, while revenue bonds do not.

☑ ***What Are the Costs of Bond Financing?*** After selling bonds, the state makes annual payments over the next few decades until the bonds are paid off. (This is very similar to the way a family pays off a mortgage.) The state pays somewhat more for a project funded by bonds than if the state does not borrow money for the project because of interest costs. The amount of additional cost depends primarily on the interest rate and the time period over which the bonds have to be repaid.

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Recent Bond Authorizations

General Fund-Supported State Infrastructure General Obligation Bonds Approved by Voters Since 2000

(In Millions)

Proposition Number	Date	Total Amount Authorized by Voters
Education		
47	November 2002	$13,050
55	March 2004	12,300
1D	November 2006	10,416
51	November 2016	9,000
Subtotal		($44,766)
Transportation		
1B	November 2006	$19,925
1A	November 2008	9,950
Subtotal		($29,875)
Resources		
12	March 2000	$2,100
13	March 2000	1,884[a]
40	March 2002	2,600
50	November 2002	3,345[a]
1E	November 2006	3,990[a]
84	November 2006	5,283[a]
1	November 2014	7,545
68	June 2018	4,100
Subtotal		($30,847)
Other		
16 (Veterans Housing)	March 2000	$50
14 (Libraries)	March 2000	350
41 (Voting)	March 2002	200
46 (Housing)	November 2002	2,100
61 (Hospitals)	November 2004	750
71 (Stem Cell)	November 2004	3,000
1C (Housing)	November 2006	2,850
3 (Hospitals)	November 2008	980
41 (Veterans Housing)	June 2014	600
Subtotal		($10,880)
Total		**$116,368**

[a] Reflects amount authorized by voters as adjusted by Proposition 1 (2014).

Overview of State Bond Debt

☑ **Existing Bonds.** The state has about $83 billion of General Fund-supported bonds on which it is making annual principal and interest payments.

☑ **Current Bond Debt Service Payments.** We estimate the state currently is paying about $6 billion annually from the General Fund to repay bonds. About $1 billion of this is for resource-related bonds.

☑ **Authorized but Unissued Bonds.** In addition, the voters and the Legislature have approved about $38 billion of General Fund-supported bonds that have not yet been sold. Most of these bonds are expected to be sold in the coming years as additional projects need funding.

Potential Impacts of November Election

☑ ***Potential Bonds on November Ballot.*** Several bond measures could appear on the November ballot. Together, these measures would authorize $18.4 billion in additional bonds. Of this total, $15.4 billion would be repaid, with interest, by the General Fund, and $3 billion plus interest would be repaid by other sources.

- Water and environmental projects ($8.9 billion).

- Affordable housing-related programs ($4 billion).

- Remediation of environmental and structural hazards ($2 billion).

- Housing for people who are homeless with mental illness ($2 billion).

- Children's hospitals ($1.5 billion).

☑ ***Potential Impact on Debt Payments.*** We estimate that the total cost (including interest) to pay off the four general obligation bond measures would be about $30 billion. This total would equal an average of about $750 million per year over the next 40 years, which is about 13 percent more than the state currently spends from the General Fund on its bond debt. The exact costs would depend on the specific details of the bond sales.

☑ ***Estimated Cost of Bond for Water and Environmental Projects.*** We estimate the cost to state taxpayers to repay this bond would total $17.3 billion to pay off both principal ($8.9 billion) and interest ($8.4 billion). This would result in average costs of about $430 million annually over the next 40 years from the General Fund.