

## AN OVERVIEW OF STATE BOND DEBT

Prepared by the Legislative Analyst

This section of the ballot pamphlet provides an overview of the state's current bond debt. It also provides a discussion of the impact the bond measures on this ballot, if approved, would have on this debt level.

### Background

**What Is Bond Financing?** Bond financing is a type of long-term borrowing that the state uses to raise money for specific purposes. The state gets money by selling bonds to investors. The state repays this money plus interest.

The money raised from bonds primarily pays for the purchase of property and construction of facilities—such as parks, prisons, schools, and colleges. The state uses bond financing mainly because these facilities are used for many years and their large dollar costs are difficult to pay for all at once.

**General Fund Bond Debt.** Most of the bonds the state sells are *general obligation* bonds. The state's debt payments on about three-fourths of these bonds are made from the state General Fund. The money in the General Fund comes primarily from state personal and corporate income taxes and sales taxes. The remaining general obligation bonds (such as housing bonds) are self-supporting and, therefore, do not require General Fund support. All general obligation bonds must be approved by a majority of voters and are placed on the ballot by legislative action or by initiative.

The state also issues bonds known as *lease-payment* bonds. These bonds do not require voter approval and require the state to pay a higher interest rate and selling costs than general obligation bonds. The state has used these bonds to build higher education facilities, prisons, veterans' homes, and state offices. The General Fund is also used to make debt payments on these bonds.

**What Are the Direct Costs of Bond Financing?** The state's cost for using bonds depends primarily on the interest rate that is paid on the bonds and the number of years payments are made. Most general obligation bonds are paid off over a period of 20 to 30 years. Assuming an interest rate of 5.5 percent (the current rate for this type of bond), the cost of paying off bonds over 25 years is about \$1.70 for each dollar borrowed—\$1 for the dollar borrowed and 70 cents for the interest. This cost, however, is spread over the entire period, so the cost after adjusting for inflation is less. Assuming a 3 percent future annual inflation rate, the cost of paying off the bonds in today's dollars would be about \$1.25 for each \$1 borrowed.

### The State's Current Debt Situation

**The Amount of State Debt.** As of October 1999, the state had about \$22.8 billion of General Fund bond debt—\$16.1 billion of general obligation bonds and \$6.7 billion of lease-payment bonds. Also, about \$14.2 billion of authorized bonds have not been sold because the projects to be funded by the bonds have not yet been undertaken.

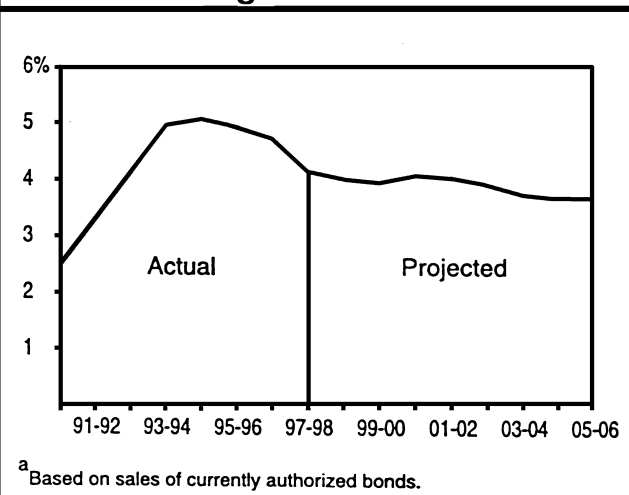
**Debt Payments.** We estimate that payments on the state's General Fund bond debt will be around \$2.6 billion during the 1999–00 fiscal year. As currently authorized bonds are sold, bond debt payments will increase to about \$3.2 billion in 2005–06 and decline thereafter.

The level of debt payments stated as a percentage of state General Fund revenues is referred to as the state's "debt ratio." Figure 1 shows actual and projected debt ratios from 1990–91 through 2005–06. The figure shows that as currently

authorized bonds are sold, the state's debt ratio will be 4.1 percent in 2000–01 and decline thereafter.

**Figure 1**

**State Debt Ratios<sup>a</sup>  
1990-91 Through 2005-06**



### Bond Propositions on This Ballot

As shown in Figure 2, there are five general obligation bond propositions totaling \$4.7 billion on this ballot.

**Figure 2**

**Bond Propositions on the March 2000 Ballot**

Proposition	Bond Amount
<b>Proposition 12</b> Bonds: Parks, Water, and Coastal Protection Act. AB 18 (Chapter 461/1999) Villaraigosa.	\$2.1 billion
<b>Proposition 13</b> Safe Drinking Water, Clean Water, Watershed Protection, and Flood Protection Act. Bond Measure. AB 1584 (Chapter 725/1999) Machado	\$1.97 billion
<b>Proposition 14</b> California Reading and Literacy Improvement & Public Library Construction and Renovation Bond Act of 2000. SB 3 (Chapter 726/1999) Rainey	\$350 million
<b>Proposition 15</b> Forensic Laboratories. Bond Measure. AB 1391 (Chapter 727/1999) Hertzberg	\$220 million
<b>Proposition 16</b> Veterans' Homes. Bond Measure. SB 630 (Chapter 728/1999) Dunn	\$50 million

If these bond propositions are approved, we estimate that the state's bond debt payments will increase to \$3.3 billion in 2005–06. We estimate that the state's General Fund revenue will increase at a faster pace than new debt resulting from sales of the bonds on this ballot. As a result, these bonds would have little effect on the state's debt ratio. Voter approval of additional bonds at future statewide elections, legislative authorization of additional lease-payment bonds, or slower General Fund revenue growth, however, would increase the state's debt ratio.