

OVERVIEW OF STATE BOND DEBT

PREPARED BY THE LEGISLATIVE ANALYST

This section describes the state's bond debt. It also discusses how the bond measures 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 that have a long useful life, 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 with bonds than if it pays up front with money it already has. 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 30-year bond with a 4 percent interest rate to pay for a project, the total cost is about 15 percent more (after adjusting for inflation) than if the state paid up front with money it already has.

Most Bonds Must Be Approved by Voters. The State 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 from the state General Fund. In addition, the voters and the Legislature previously have approved about \$40 billion of General Fund-supported 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 each 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 are two General Fund-supported bond measures on this ballot: Proposition 1 and Proposition 38. Proposition 1 would allow the state to borrow \$10 billion for affordable housing programs. The cost to repay this bond would be about \$500 million to \$600 million each year for 25 years. Proposition 38 would allow the state to borrow \$8.4 billion for immunology and immunotherapy research. The cost to repay this bond would be about \$500 million to \$600 million each year for 20 years. The cost to repay both bonds would total about \$1 billion each year, which is about one-half of 1 percent (0.5 percent) of the state's annual General Fund revenue.