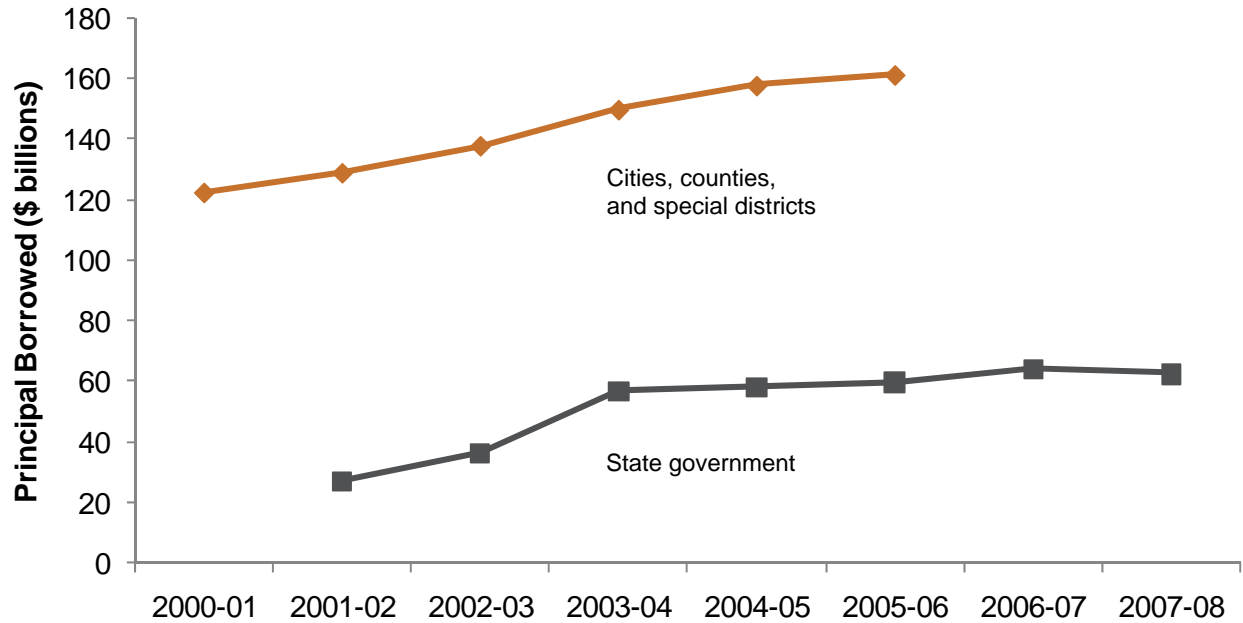
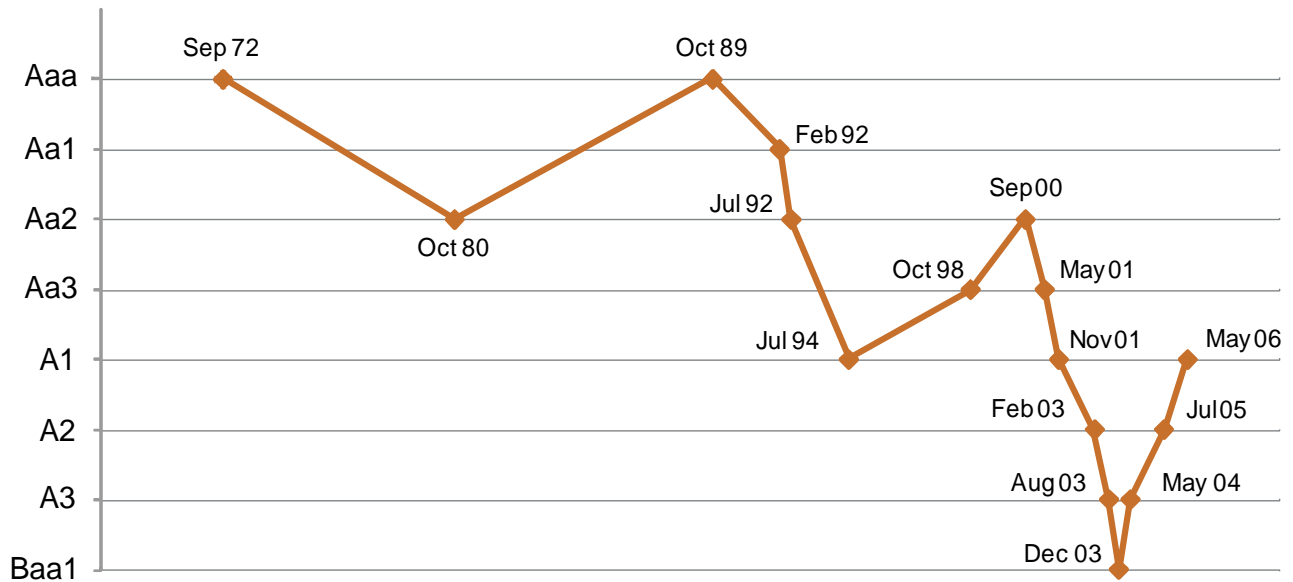


- **STATE AND LOCAL GOVERNMENTS BORROW MONEY USING BONDS AND SIMILAR FORMS OF DEBT.**
Bonds are like home mortgages: Government agencies borrow a specific amount of money which then must be repaid over time, usually many years. Bonds are generally used to finance the cost of building capital facilities such as roads, fire stations, flood protection, and schools. They are repaid, with interest, using revenues from taxes or sometimes from fees and charges.
- **GENERAL OBLIGATION BONDS ARE THE SIMPLEST FORM OF BORROWING.**
Both the state and local governments issue general obligation (GO) bonds. The state commits its “full faith and credit” to repay the bonds. Local governments raise property taxes as needed to repay the bonds, as is specifically allowed under Proposition 13. State GO bonds must be approved at an election by a majority of the voters. Local GO bonds must be approved at an election by 2/3 of the voters (except for school bonds, which require a 55% majority).
- **STATE AND LOCAL GOVERNMENTS HAVE TECHNIQUES FOR BORROWING WITHOUT VOTER APPROVAL.**
A city could fund a sewage treatment plant by selling “revenue bonds” backed by the revenues from the monthly sewer fees paid by citizens. The state could fund construction of a prison by agreeing to lease the prison and selling shares in the flow of lease revenue, an arrangement called a lease revenue bond, a leaseback, or certificates of participation. The state tends to use revenue and lease bonds for projects which are necessary but not particularly popular, such as state office buildings and prisons. Governments typically pay higher rates when they borrow through revenue bonds rather than general obligation bonds.
- **BOTH STATE AND LOCAL GOVERNMENT BORROWING HAS INCREASED IN THIS DECADE.**
Local governments, such as cities, counties, and special districts, have borrowed more than the state. They owed about \$160 billion in 2005-06, while the state owed about \$60 billion. (This total does not include bonds issued by school districts.) However, state debt has grown more rapidly during this decade, increasing by more than 120%, compared to about 32% for local government nonschool debt. In addition, California voters have authorized the state to issue another \$57 billion.
- **CALIFORNIA’S BOND RATING HAS FALLEN MARKEDLY IN RECENT YEARS.**
Bonds are usually rated by agencies such as Standard and Poor’s, Moody’s, and Fitch. In general, bonds with higher ratings can be sold for lower interest rates and other costs than bonds with lower ratings. California ties with Louisiana for the lowest rating under all three rating services, largely because of the state’s difficulties in adopting a budget. The State Treasurer has challenged whether these ratings are related to any real risk that the state will fail to pay back the money it has borrowed.

California State and Local Government Borrowing



California Bond Rating History (Moody's)



Sources: California State Controller. California State Treasurer.

Contact: Dean Misczynski

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