Municipal Bonds

What Is Bond Financing? Bond financing is a type of long-term borrowing that the state uses to raise money for various purposes. The state obtains this money by selling bonds to investors [households and businesses]. In exchange, it agrees to repay this money, with interest, according to a specified schedule.

What Do Bonds Fund and Why Are They Used? The state has traditionally used bonds to finance major capital outlay projects such as roads, educational facilities, prisons, parks, water projects, and office buildings (that is, public infrastructure-related projects). Bonds also have been used to help finance certain private infrastructure, such as housing. A main reason for issuing bonds is that these facilities provide services over many years. Thus, it is reasonable for not only current, but also future taxpayers to help pay for them. Additionally, the large dollar costs of these projects can be difficult to pay for all at once.

In addition to selling bonds to pay for infrastructure, the state has also sold them to close major shortfalls [lack of funds] in its General Fund budget. An example is Proposition 57 of 2004 in which voters authorized such coverage of major shortfalls. However, Proposition 58 of 2004 limits the state's future ability to sell bonds to help balance its budget.

-Legislative Analyst's Office, "Bonds" (undated) excerpt