



STATE OF CALIFORNIA

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October 1, 2002

Dear Friends and Colleagues:

On behalf of the California Debt and Investment Advisory Commission (CDIAC), I am pleased to release the report *"A Review of California State and Local Outstanding General Obligation Debt: 1992-93 through 1998-99."* Pursuant to State Government Code Section 8858, CDIAC is required to collect and report on outstanding public debt for the State and local governments in California. This report is prepared pursuant to this requirement. It focuses solely on general obligation (GO) debt due to data discrepancies involving other types of debt, provides an overview of state and local GO debt, and explores the relationship between outstanding GO debt and prevailing economic and demographic conditions statewide and within various regions of the State.

Some of the key findings of the report include:

- When compared to other states on either a per capita basis or as a percent of personal income (to account for factors such as population and wealth), California state and local outstanding GO debt is consistently lower over the time period studied. In 1998-99, for example, California state and local outstanding GO debt per capita and debt as a percent of personal income are each nearly 40 percent lower than the average of all other state and local government outstanding GO debt per capita and debt as a percent of personal income.
- Between fiscal years 1992-93 and 1998-99, outstanding GO debt at the state level grew at a 3.3 percent average annual rate, starting at \$13.3 billion in 1992-93 and reaching \$16.2 billion in 1998-99. Over the same period, local outstanding GO debt increased at an average annual rate of 12.8 percent, totaling \$11.5 billion in 1998-99.

- With respect to local governmental entities, in 1998-99, K-12 school districts were responsible for the largest proportion of outstanding GO debt (nearly 60 percent), followed by city governments (19.9 percent), and special districts (19.3 percent). This contrasts sharply with the proportion of outstanding GO debt that existed in 1992-93, where special districts were responsible for the largest portion of outstanding debt (59.7 percent), followed by cities (24.9 percent) and school districts (13.6 percent).
- When outstanding GO debt for all types of local governmental entities is aggregated to the county level, the more urban counties rank the highest in terms of total debt, while rural counties rank the lowest. However, when adjusting these figures to account for personal income or population levels, the amount of outstanding GO debt in several rural counties looks proportionately higher than that of the more populous, urban counties.

Reports such as this one, in combination with other information and educational resources, play a crucial part in CDIAC's mission to educate and promote best debt issuance practices. I thank those state agencies that provided CDIAC with the necessary information to fulfill this endeavor. I welcome your comments and input on this informative report.

Sincerely,



Philip Angelides
State Treasurer and Chair,
California Debt and Investment Advisory Commission

**A Review of California State and Local
Outstanding General Obligation Debt
1992-93 through 1998-99**

EXECUTIVE SUMMARY

Interest regarding the level of public debt is common among public officials nationwide. In this regard, California is no exception. The level of public indebtedness and its implications for state and local finances have long been – and will continue to be – important public policy issues in a state with nearly 7,000 units of government operating at least partly through debt financing, much of it directly supported by tax revenues.

CDIAC Statutory Requirements. Pursuant to State Government Code Section 8858, the California Debt and Investment Advisory Commission (CDIAC) is required to collect and report on outstanding public debt for entities within the State of California. The statute requires CDIAC to obtain data from existing sources, including the State Controller's Office (SCO), State Department of Education (DOE), and the Chancellor's Office of Community Colleges. Thus, the legislation required CDIAC compile information from various sources, providing policymakers, the State and local governments, and the public information for analysis on outstanding state and local government indebtedness.

In satisfying this statutory mandate, CDIAC's aim has been to produce a report that could become a reference point with respect to state and local debt levels on which subsequent policy discussions could be based. Toward that end, CDIAC sought not only to compile the amount of current outstanding debt of both the State and local governments, but also to analyze the data in concert with several California state- and county-specific economic, financial, and demographic variables. The goal was to provide a greater context in which to view the data, currently and in light of trends over time.

Limitations of the Data Collected. From the outset, CDIAC encountered two significant hurdles in its initial efforts to mesh the data from three state data sources into a single, comprehensive database. First, because these three state agencies compile and report debt data for their own areas of jurisdiction, that data is not consistent across jurisdictions. Second, not all types of debt are tracked currently; for example, although Mello-Roos Community Facilities' bonds are a significant component of tax-supported debt issued by school districts in California, DOE does not collect this data, so it cannot be considered by CDIAC.

Because of instances such as these, it would not be possible for CDIAC to present a *complete* picture of outstanding debt in California, because data for *every* type of debt simply is not provided by currently available sources. CDIAC's initial response to this development was to focus strictly on *tax-supported indebtedness* (primarily general obligation (GO) debt, lease-backed debt, and certificates of participation (COP)). Although tax-supported debt does not reflect *total* state and local indebtedness, it *does* reflect debt that is directly repaid through taxpayers. After evaluating the constraints of

available data and the various options for dealing with these constraints, CDIAC's board directed staff to focus on analyzing tax-supported indebtedness.

However, through its analysis of state agency-collected data as well as a CDIAC survey of outstanding county government debt, CDIAC uncovered additional discrepancies in the COP and lease-backed debt data.¹ First, some of the data reported to state agencies are not correct (while other data goes unreported), problems which may be exacerbated by the fact that the state agencies' reporting deadlines often occur before local jurisdictions complete their internal audits. Second, CDIAC analysis indicated that some reported debt was incorrectly classified with respect to type of debt. Finally, the lease data reported have two inherent problems: first, unlike the other types of debt, figures on lease debt include both future principal and interest payments, whereas the data for the other types is for *outstanding principal only*. Thus, the lease debt is not directly comparable to other types of debt, requiring CDIAC to make numerous assumptions to estimate how much of the reported lease debt consists of outstanding principal.

Analysis of GO Debt Only. Because of these limitations, CDIAC's board directed staff to focus this report on outstanding GO debt only. After extensive analysis of existing data, CDIAC staff felt fairly confident that the available outstanding GO debt data are relatively accurate. Though this report covers only a portion of outstanding debt in the State, it nevertheless can be of use to policymakers and the public.² Specifically, this report strives to provide a "broad-brush" overview of California's outstanding GO debt using county aggregates to explore the relationship between outstanding GO debt and prevailing economic and demographic conditions. Given its necessarily limited scope, this report best serves as an introduction to this one type of debt used by the State and local governmental jurisdictions and the general magnitudes of such debt outstanding.

Key Findings. While recognizing the limits created by the data problems encountered, some of the report's key findings include:

- When compared to other states on either a per capita basis or as a percent of personal income (to account for factors such as population and wealth), California state and local outstanding GO debt is consistently lower over the time period studied. In 1998-99, for example, California state and local outstanding GO debt per capita and debt as a percent of personal income are each nearly 40 percent lower than the average of all other state and local government outstanding GO debt per capita and debt as a percent of personal income.
- Between fiscal years 1992-93 (the earliest year for which comprehensive data exist) and 1998-99, outstanding GO debt at the State level grew at a 3.3 percent compound

¹ It should be noted that the data problems appear to vary considerably, are not consistent across entity of debt type, and are not the responsibility of any one individual or agency.

² GO debt is the type most directly secured by taxpayers. See the Appendix for further information about GO debt.

average annual rate, starting at \$13.3 billion in 1992-93 and reaching \$16.2 billion in 1998-99.³ Over the same period, local outstanding GO debt increased at a compound average annual rate of 12.8 percent, totaling \$11.5 billion in 1998-99. Other measures of economic activity grew at compound average annual rates between these two figures. For example, revenues to the State's General Fund increased 8.3 percent, gross state product increased 5.8 percent, and California's taxable sales increased 5.6 percent (all at compound average annual growth rates).

- With respect to local governmental entities, in 1998-99, K-12 school districts were responsible for the largest proportion of outstanding GO debt (nearly 60 percent), followed by city governments (19.9 percent), and special districts (19.3 percent). Additionally, K-12 school district outstanding GO debt grew the fastest over the six-year period (at a compound average annual growth rate of 44 percent per year), and by itself was responsible for more than the total growth in outstanding GO debt for all the other types of local jurisdictions combined over the period.
- When outstanding GO debt for all types of local governmental entities is aggregated to the county level, the more urban counties rank the highest in terms of total debt, while rural counties rank the lowest. However, when comparing these figures to account for differences in personal income or population levels, the amount of outstanding GO debt in several rural counties looks proportionately higher relative to that in the more populous, urban counties.

Conclusions and Future Outlook. The analysis presented here provides a “broad-brush” overview of outstanding GO debt. This data provides some insight into the relative amounts of outstanding debt held by various jurisdictions, but not a complete picture. Given the shortcomings of currently available data, CDIAC is exploring other possible options, including collecting data from national debt repositories via CUSIP numbers.⁴ The viability of such options will depend on factors such as cost, availability and comprehensiveness of any alternative data sources. In the meantime, CDIAC will work with the data currently available through state agencies.

³ This calculation incorporates the effects of compounding for each year within the timeframe under consideration, unlike a rate of change calculation over the entire period. CDIAC uses this measure throughout the report.

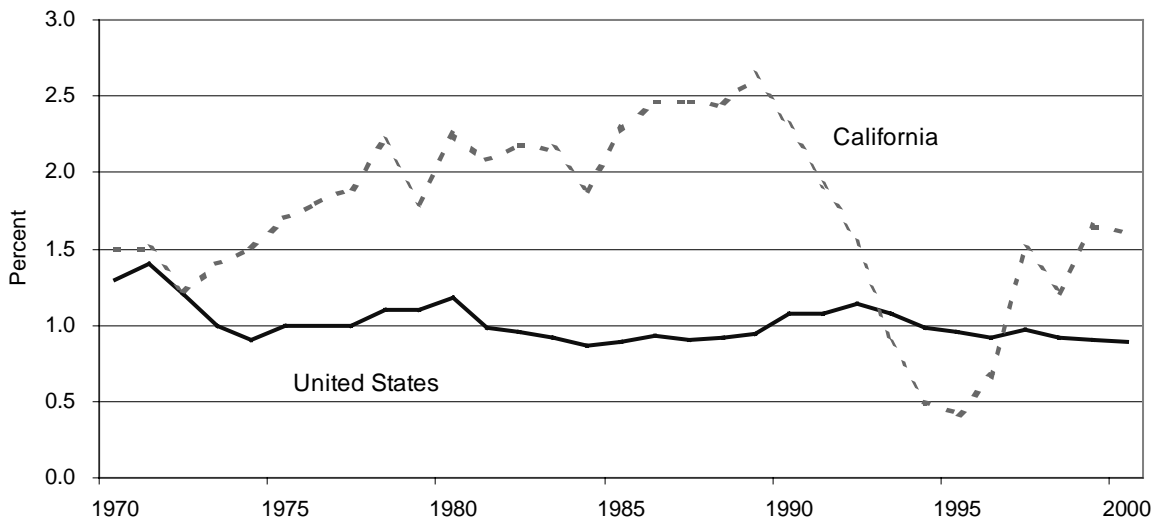
⁴ Committee on Uniform Security Identification Procedures (CUSIP) numbers are unique identification numbers assigned to each maturity of a domestic debt or equity issuance. A similar system exists for foreign securities. These numbers are used by all sectors of the financial industry for identifying, clearing, and settling securities as well as for other functions.

INTRODUCTION

Since the early 1970s, there has been a steady increase in state and local debt outstanding. According to the U.S. Department of Commerce, between 1973 and 1999, total debt outstanding for U.S. state and local governments grew from \$188 billion to \$1.4 trillion, representing a compound average growth of 7.7 percent annually. In California, state and local government outstanding debt grew from \$19 billion in 1973 to \$167 billion in 1999 – an 8.4 percent compound average annual growth rate.

Economic and Demographic Factors Affecting Outstanding Debt. The increase in outstanding debt issued is due, in part, to growing populations and the resulting need to meet demand for schools, roads, water delivery systems, and other public services typically funded through debt issuance. Figure 1 shows the steady growth in U.S. and California population over this period.

Figure 1
Annual Population Growth Rates, U.S. and California



Source: Department of Finance

Other forces also have created economic conditions under which debt issuance becomes a cost-effective option. Reductions in intergovernmental transfers (federal aid to state and local governments) and public resistance to new or increased taxes have reduced available revenues to fund large infrastructure projects on a “pay as you go” basis. In addition, lower interest rates, particularly in recent years, have reduced the relative cost of borrowing for state and local governments versus funding programs using available revenues.

The Role of Debt Financing. Clearly, the use of debt has an important role in modern public finance. Debt financing makes it unnecessary for governments to carry the full burden of long-term capital projects in their current budgets, thereby reducing fiscal stress and making it possible for the governments to deliver a wider range of services for the same public dollars. Debt financing also allows the costs of long-term projects to be shared between current and future taxpayers who will benefit from the projects. This justification for debt financing is known as the “benefits received principle.” The use of debt also may allow larger, more costly projects to be undertaken sooner than if the projects were financed through budgeted revenues. Finally, in an era when there is substantial public resistance to tax increases, debt financing also may offer an important alternative for meeting the expenditure demands on government without significantly higher taxes.

The use of debt financing to support all or a portion of a state or local government capital plan increases the complexity of the overall budget allocation decision process. Rather than relying solely on current revenues (generated by taxes, usage fees, federal funds, and other special sources) to establish the expenditure base, debt financing provides an additional source of funds for the overall expenditure plan. However, policymakers are forced to consider the long-term implications of the need to make future debt-service payments to retire the acquired debt.

The implications of such decisions include the possible “crowding out” of operating expenditures for other purposes in the future. Debt service becomes a “fixed” expenditure in a governmental budget, thereby reducing the amount of available revenues for other discretionary purposes.⁵ Any decisions to issue additional debt would need to weigh the tradeoff of potential crowding out with the benefits of providing the needed project. This can be a particularly difficult decision when other factors, including economic downturns, put pressure on discretionary revenue sources and the programs they fund. Therefore, state and local governments must consider many factors in their decisions whether to finance projects through additional debt issuance.

CDIAC’s Statutory Requirement. Pursuant to State Government Code Section 8858, the California Debt and Investment Advisory Commission (CDIAC) is required to collect and maintain data on state and local outstanding indebtedness. This responsibility is in addition to CDIAC’s existing mandate of collecting “real-time” information on debt at the time it is issued. The legislation also requires CDIAC to report annually on the amount of state and local outstanding indebtedness and trends in the data, all by using existing data sources, including the State Controller’s Office (SCO), the State Department of Education (DOE), and the Chancellor’s Office of Community Colleges (Community Colleges).

- ***State Controller’s Office:*** The State Controller’s Office collects information on the outstanding debt of cities, counties, special districts, redevelopment agencies, and transportation planning agencies. This data, which is legislatively mandated, provided

⁵ Future debt service may be adjusted in some cases due to refundings or debt restructurings (i.e. swaps), or may vary due to interest rate changes, but cannot be eliminated.

the most comprehensive data set utilized by CDIAC staff in its review. The SCO publishes yearly fiscal and debt information in its series of *Financial Transactions* reports distinguished by the various types of governments.

- ***Department of Education:*** The Department of Education collects information on certain types of outstanding K-12 school district debt. This data is reported by local issuers, based upon unaudited year-end information.
- ***California Community Colleges:*** The Chancellor's Office of the Community Colleges collects a variety of data from community college district data annually. A section of the district annual report includes outstanding indebtedness. That data is only available from the original reports; it is not available electronically.

In satisfying this statutory mandate, CDIAC initially sought to produce a report that could become a reference point with respect to debt levels on which subsequent policy discussions could be based. Toward that end, it sought not only to compile the amount of current outstanding debt of both the State and local governments but also to analyze the data in concert with several California-specific economic, financial, and demographic variables. Unfortunately, the limitations of the available outstanding debt data restrict the ability of CDIAC to achieve the goals of the legislation without significant changes in data collection methods.

From the outset, CDIAC encountered two significant hurdles in its initial efforts to mesh the data from these three state data sources into a single, comprehensive database:

- ***Separate Reporting Standards.*** Because three state agencies compile and report debt data for their own areas of jurisdiction, that data is not consistent across jurisdictions. That is, the data produced by each control agency will be subject to its own reporting methods and auditing techniques, and consequently may differ in terms of scope (for example, K-12 school debt data does not reflect lease obligation information).
- ***Data Not Collected.*** Although Mello-Roos Community Facilities' bonds are a significant component of tax-supported debt issued by school districts in California, DOE does not collect this data, so it cannot be considered by CDIAC.

Because of instances such as these, it would not be possible for CDIAC to present a *complete* picture of outstanding debt in California, because data for *many* types of debt is simply not currently available from state sources. CDIAC's initial response to this development was to focus strictly on *tax-supported indebtedness* (primarily general obligation (GO) debt, lease-backed debt, and certificates of participation (COP)). Although tax-supported debt does not reflect *total* state and local indebtedness, it *does* reflect debt that is directly paid through taxpayers. CDIAC's board directed staff to pursue the focus on tax supported indebtedness approach after evaluating the constraints of available data and the resulting options available. However, through its analysis of state agency-collected data, as well as a CDIAC survey of outstanding county

government debt, CDIAC uncovered additional discrepancies in the non-GO tax-supported debt data, summarized as follows:⁶

- **Reporting Errors.** CDIAC analysis indicated that some of the data reported to state agencies are not correct, while other data goes unreported. Moreover, the local jurisdictions' reporting deadlines often occur before they complete their internal audits; errors subsequently found are not corrected for prior years.
- **Misclassification Errors.** CDIAC analysis indicated that some debt was incorrectly classified. Local officials report the amount of each type of debt outstanding; however, misclassification errors have been found. For instance, evidence suggests that some GO debt has been reported as COP debt. Likewise, some debt initially classified as revenue debt was later reclassified as GO debt. This type of error would not affect the overall level of outstanding debt from year to year, but would distort any attempt to present reliable results regarding its composition.
- **Lease Data Incompatibility.** The lease data reported have two inherent problems. First, unlike the other types of debt, figures on lease debt include both future principal and interest payments, whereas the data for the other types is for principal only. Thus, the lease debt is not directly comparable to other types of debt, requiring CDIAC to make numerous assumptions to estimate how much of the reported lease debt consists of principal outstanding. Just as importantly, the misclassification error described above also occurs with respect to lease data and COPs. For instance, a review of the COP data (for county governments, for instance) revealed that Orange County reported \$760 million in COP debt outstanding for 1995-96, and no debt the following year. CDIAC learned that Orange County reclassified the COP data to be lease data the following year. Given that the lease data includes future interest payments while the COP data does not, both debt categories would be incompatible (for comparison purposes) with other debt types.

Because of these limitations, CDIAC's board directed staff to focus this report on outstanding GO debt only. After extensive analysis of existing data, CDIAC staff felt fairly confident that the outstanding GO debt data available is relatively accurate. Specifically, the GO debt data tracked well with CDIAC's own debt-issuance database, and (in the case of county governments) also generally was consistent with CDIAC's survey of local government outstanding debt.

Though this report covers only a limited portion of outstanding debt in the State, it nevertheless can be of use to policymakers and the public. Specifically, this report strives to provide a "broad-brush" overview of California's outstanding GO debt using county aggregates to explore the relationship between outstanding GO debt and prevailing economic and demographic conditions. This report best serves as an introduction to one type of debt used by the State and local governmental jurisdictions and the general magnitudes of debt outstanding. The report is organized as follows:

⁶ It should be noted that the data problems appear to vary considerably, are not consistent across entity of debt type, and are not the responsibility of any one individual or agency.

- Section I provides an overview of the empirical findings.
- Section II presents the aggregate data for state and local outstanding GO indebtedness.
- Section III examines the local outstanding GO debt data by type of governmental jurisdiction.
- Section IV explores the aggregate outstanding GO debt landscape when the data for all governmental entities inside each county is added together. It then standardizes the numbers to reflect the counties' differences with respect to population and personal income.
- Section V presents CDIAC's conclusions and future considerations.
- The Appendix (excerpted from CDIAC's *Debt Issuance Primer*) provides background information on GO debt.

OVERVIEW OF EMPIRICAL RESULTS

As noted previously, because of the limitations of the data collected, this report focuses on outstanding GO debt only. Some of the key findings of the analysis include:

- When compared to other states on either a per capita basis or as a percent of personal income (to account for factors such as population and wealth), California state and local outstanding GO debt is consistently lower over the time period studied. In 1998-99, for example, California state and local outstanding GO debt per capita and debt as a percent of personal income are each nearly 40 percent lower than the average of all other state and local government outstanding GO debt per capita and debt as a percent of personal income.
- Between fiscal years 1992-93 (the earliest year for which comprehensive data exist) and 1998-99, outstanding GO debt at the State level grew at a 3.3 percent compound average annual rate, starting at \$13.3 billion in 1992-93 and reaching \$16.2 billion in 1998-99.⁷ Over the same period, local outstanding GO debt increased at a compound average annual rate of 12.8 percent, totaling \$11.5 billion in 1998-99. Other measures of economic activity grew at compound average annual rates between these two figures. For example, revenues to the State's General Fund increased 8.3 percent, gross state product increased 5.8 percent, and California's taxable sales increased 5.6 percent (all at compound average annual growth rates).
- With respect to local governmental entities, in 1998-99, K-12 school districts were responsible for the largest proportion of outstanding GO debt (nearly 60 percent), followed by city governments (19.9 percent), and special districts (19.3 percent). Additionally, K-12 school district outstanding GO debt grew the fastest over the six-year period (at a compound average annual growth rate of 44 percent per year), and by itself was responsible for more than the total growth in outstanding GO debt for all the other types of local jurisdictions combined over the period.
- When outstanding GO debt for all types of local governmental entities is aggregated to the county level, the more urban counties rank the highest in terms of total debt, while rural counties rank the lowest. However, when adjusting these figures to account for personal income or population levels, the amount of outstanding GO debt in several rural counties looks proportionately higher than that of the more populous, urban counties.

The specific details supporting these findings and others are discussed in the following sections.

⁷ This calculation incorporates the effects of compounding for each year within the timeframe under consideration, unlike a rate of change calculation over the entire period. CDIAC uses this measure throughout the report.

II. TOTAL STATE AND LOCAL GOVERNMENT OUTSTANDING GO DEBT

Figure 2 summarizes outstanding GO debt information between 1992-93 and 1998-99 for both the State of California and all local jurisdictions.⁸ The figure shows that the State's outstanding GO debt in 1998-99 totaled \$16.2 billion, an increase of \$2.9 billion (or a compound average annual increase of 3.3 percent) from 1992-93. Local jurisdiction outstanding GO debt in 1998-99 totaled \$11.5 billion, reflecting an increase of \$5.9 billion (or a compound average annual increase of 12.8 percent). During the same time period, revenues to the State's General Fund increased 8.3 percent, gross state product increased 5.8 percent, and California taxable sales increased 5.6 percent (all at compound average annual growth rates).

Figure 2
Summary of California Outstanding State and Local GO Debt
(Dollars in Millions)

Type of Debt	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98	1998-99	Change 1992-93 to 1998-99*
STATE OF CALIFORNIA								
General Obligation Bonds	13,338	14,369	14,903	14,322	14,251	14,933	16,202	2,864
Percent Change	NA	7.7%	3.7%	-3.9%	-0.5%	4.8%	8.5%	3.3%
LOCAL AGENCIES								
General Obligation Bonds	5,563	6,532	7,386	7,621	8,435	9,811	11,474	5,911
Percent Change	NA	17.4%	13.1%	3.2%	10.7%	16.3%	17.0%	12.8%
TOTAL								
General Obligation Bonds	18,901	20,901	22,289	21,943	22,686	24,744	27,676	8,775
Percent Change	NA	10.6%	6.6%	-1.6%	3.4%	9.1%	11.9%	6.6%
* "Change 1992-93 to 1998-99" is expressed as a compound average annual percentage change between 1992-93 and 1998-99. Other percent changes reflect year-to-year changes in percentage terms. Calculations are based on exact amount and then rounded to the nearest million or tenth of percent for presentation purposes.								
Source: State Controller's Office, Department of Education, Chancellor's Office of the Community Colleges. All percentage calculations completed by CDIAC.								

When compared to other states on either a per capita basis or as a percent of personal income (to account for factors such as population and wealth), California state and local outstanding GO debt is consistently lower over the time period. Figure 3 provides comparative statistics based upon U.S. Department of Commerce data for

⁸ The state figures exclude self-liquidating GO bonds, as they do not represent General Fund tax-supported debt.

California and all other states. In 1998-99, for example, California state and local outstanding GO debt per capita and debt as a percent of personal income are each nearly 40 percent lower than the average of all other state and local government outstanding GO debt per capita and debt as a percent of personal income.

Figure 3
Outstanding General Obligation Debt*

Fiscal Year	Per Capital		% of Personal Income	
	All States (excluding California)	California	All States (Excluding California)	California
1992-93	\$1,327	\$784	6.63%	3.73%
1993-94	1,402	906	6.77%	4.24%
1994-95	1,522	935	7.02%	4.28%
1995-96	1,596	980	6.89%	4.16%
1996-97	1,649	980	6.70%	3.92%
1997-98	1,788	1,115	6.92%	4.27%
1998-99	1,900	1,161	6.97%	4.20%

*Source: US Department of Commerce, Bureau of the Census. Amount computed by CDIAC.

III. LOCAL DEBT BY TYPE OF GOVERNMENTAL JURISDICTION

Figure 4 presents the outstanding local GO debt data by type of governmental jurisdiction. California local governments are comprised of seven distinct types of governmental entities, which total nearly 7,000 units statewide. Two of these types (redevelopment agencies and transportation agencies) generally do not issue GO debt. The remaining five types that do issue GO debt include the following:

- **County Governments.** California's 58 counties play a dual role in providing services to their residents. First, counties are charged with the responsibility to administer a variety of *state-required* programs. Second, counties administer a variety of *local* programs. These include programs of state interest, such as public health and social services, as well as municipal services provided to residents of unincorporated areas of the county. In some cases, counties also provide municipal services to residents of incorporated areas, by agreement or contract with the city.
- **City Governments.** California's 474 cities (as of June 30, 1999) were created voluntarily by local citizens to provide for local services and to give citizens local control of development and other land-use decisions. Many cities provide a wide array of municipal services, including fire protection, sewers, libraries, and parks and recreation, while others provide more limited services to residents, either because their residents already receive these services from the county (for example, contract cities) or from special districts (for example, fire protection), or because of limits on local revenues.
- **Special Districts.** California's 4,780 special districts are a unit of local government – separate from cities and counties – which provide public services such as fire protection, waste disposal, water supply, electric utilities, and libraries. California residents vary in their reliance upon special districts. Some residents receive most of their services from their city or county government, not from special districts. Other residents receive many public services from them.
- **K-12 School Districts.** California's 991 K-12 school districts provide instruction to about 5.8 million students. These districts include 574 elementary school districts, 93 high school districts, 318 unified school districts, and six common administration school districts. These districts can cross other jurisdictional boundaries (e.g., a single school district can serve multiple cities).
- **Community College Districts.** California's 71 community college districts provide instruction to about 1.5 million adults at 106 colleges operated by 71 locally governed districts throughout the State. The system offers academic and occupational programs at the lower division (freshman and sophomore) level. Based on agreements with local school districts, some college districts offer a variety of adult educational programs, including basic skills education, citizenship instruction,

vocational, and recreation programs. Finally, pursuant to State law, many colleges have established programs intended to further regional economic development.

Figure 4
California Outstanding Local Agency GO Debt By Type of Jurisdiction
(Dollars in Millions)

Type of Governmental Entity	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98	1998-99	Change 1992-93 to 1998-99*
City	1,383	1,604	1,969	2,056	2,118	2,148	2,285	902
Percent Change	NA	15.9%	22.8%	4.4%	3.0%	1.4%	6.4%	8.7%
Percent of Total Debt	24.9%	24.6%	26.7%	27.0%	25.1%	21.9%	19.9%	-5.0%
Community College District	13	21	29	37	43	44	84	70
Percent Change	NA	59.2%	36.9%	27.3%	17.5%	0.3%	91.9%	35.8%
Percent of Total Debt	0.2%	0.3%	0.4%	0.5%	0.5%	0.4%	0.7%	0.5%
County	89	83	76	71	65	58	53	-36
Percent Change	NA	-6.8%	-8.3%	-6.7%	-7.8%	-11.2%	-8.5%	-8.2%
Percent of Total Debt	1.6%	1.3%	1.0%	0.9%	0.8%	0.6%	0.5%	-1.1%
K-12 School District	758	1,729	2,372	2,776	3,774	5,154	6,833	6,076
Percent Change	NA	128.2%	37.2%	17.0%	36.0%	36.6%	32.6%	44.3%
Percent of Total Debt	13.6%	26.5%	32.1%	36.4%	44.7%	52.5%	59.6%	45.9%
Special District	3,320	3,095	2,939	2,681	2,434	2,408	2,219	-1,101
Percent Change	NA	-6.8%	-5.0%	-8.8%	-9.2%	-1.1%	-7.8%	-6.5%
Percent of Total Debt	59.7%	47.4%	39.8%	35.2%	28.9%	24.5%	19.3%	-40.3%
Total	5,563	6,532	7,386	7,621	8,435	9,811	11,474	5,911
Percent Change	NA	17.4%	13.1%	3.2%	10.7%	16.3%	17.0%	12.8%

* "Change 1992-93 to 1998-99" is expressed as a compound average annual percentage change between 1992-93 and 1998-99. Other percent changes reflect year-to-year changes in percentage terms. Calculations are based on exact amount and then rounded to the nearest million or tenth of percent.

Source: State Controller's Office, Department of Education, Chancellor's Office of the Community Colleges.
Percentage calculations computed by CDIAC.

As Figure 4 indicates, in 1998-99, K-12 school districts held the largest amount of total outstanding GO debt (59.6 percent), followed by city governments (19.9 percent), and special districts (19.3 percent). Conversely, county governments and community college districts each held much smaller shares of the total outstanding debt (less than one percent, each).

K-12 school districts and community college districts both posted double-digit compound average annual growth rates in outstanding GO debt from 1992-93 to 1998-99; however, in absolute terms, the growth in K-12 school district debt far exceeded the growth in community college debt (\$6.1 billion versus \$70 million, respectively). Indeed, K-12 school districts alone were responsible for *more than the entire net increase* in total outstanding local GO debt from 1992-93 through 1998-99. The vast majority of the K-12 school district debt was issued for facilities construction (though the class-size reduction effort was still in its infancy). Conversely, city governments added \$902 million in outstanding GO debt during the six-year period, while the level of outstanding GO debt for county governments and special districts declined (by over \$1 billion in the case of special districts).

However, the number of California's local government agencies is not equal across the various types of governmental entities. For instance, California has 58 county governments, but almost 5,000 special districts. Thus, Figure 5 provides perspective on the extent to which the various types of governmental units held outstanding GO debt in 1998-99.

Figure 5
Proportion of California Governmental Entities with Outstanding GO Debt, 1998-99*

	Number of Entities with Outstanding GO Debt	Percent of Total with Outstanding GO Debt	Number of Entities	Percent of Total Entities	Number of Entities with Outstanding Debt as a Percent of Number of Entities
Cities	74	11.7%	474	6.9%	15.6%
Community College Districts	12	1.9%	71	1.0%	16.9%
Counties	3	0.5%	58	0.8%	5.2%
K-12 School Districts	328	51.7%	991	14.5%	33.1%
Special Districts	218	34.3%	4,780	70.0%	4.6%
Redevelopment Agencies	0	0.0%	406	5.9%	0.0%
Transportation Agencies	0	0.0%	47	0.7%	0.0%
Total	635	100.0%	6,827	100.0%	9.3%

Source: State Controller's Office, Department of Education, Chancellor's Office of the Community Colleges.
Percentage calculations computed by CDIAC.

Figure 5 reveals several things. First, about nine percent of the over 6,000 local governmental agencies listed held outstanding GO debt in 1998-99. However, this figure varies widely among governmental types. For instance, K-12 school districts comprise under 15 percent of all local governmental jurisdictions in California, but were responsible for *over half the outstanding GO debt*. Special districts reporting outstanding GO debt account for less five percent of all special districts in California; however, they account for over a third of all local agencies in California with outstanding GO debt, due to the large overall number of special districts. The proportions of city governments and

community college districts reporting outstanding GO debt were roughly half that of K-12 school districts (16 and 17 percent, respectively). The proportions of both county governments and special districts reporting outstanding GO debt were around five percent.

It is worth reiterating that the data presented in Figure 4 and Figure 5 are for GO debt only, and each type of entity relies on GO bonds to a varying degree. If data for other debt instruments were included, the proportion of total outstanding debt held by each type of jurisdiction would change noticeably.

IV. OUTSTANDING GO DEBT AGGREGATED BY COUNTY

Another useful method to examine outstanding local GO debt around California involves considering the data on a geographic basis. Toward this end, CDIAC aggregated outstanding GO debt for all jurisdictions to the county level.⁹ That is, for each county, CDIAC compiled a number that sums up the outstanding debt for the county government, the outstanding debt for all cities within the county, the outstanding debt for all school districts within the county, and so on. Figure 6 presents results when the data are aggregated to the county level in this manner.

⁹ CDIAC compiled this data from multiple sources; county governments did not report these results.

Figure 6
Total Local Government Outstanding GO Debt, Aggregated by County
(Dollars in Millions)

County	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98	1998-99	Compound Avg. Annual Percent Change
Alameda	710.3	789.9	944.3	903.6	1,002.3	1,008.4	1,214.6	9.4%
Alpine	0.1	0.0	0.0	0.0	0.0	0.0	0.0	NA
Amador	0.0	0.3	0.1	0.1	0.1	0.0	0.0	NA
Butte	3.8	22.9	20.2	19.4	18.6	17.8	36.7	45.8%
Calaveras	0.3	1.1	2.2	2.0	1.7	9.6	18.8	94.4%
Colusa	0.6	0.9	0.8	0.7	0.6	0.4	0.4	-9.0%
Contra Costa	92.4	120.7	115.1	166.0	196.4	230.6	358.5	25.4%
Del Norte	0.0	0.0	0.0	0.0	0.0	0.0	0.0	NA
El Dorado	4.9	13.2	12.2	11.9	11.5	24.3	38.4	41.1%
Fresno	13.0	145.2	184.7	228.4	302.1	371.3	394.7	76.5%
Glenn	0.0	0.0	0.0	0.0	0.5	0.5	1.8	115.0%
Humboldt	7.0	6.9	4.5	3.7	2.9	2.1	5.8	-3.0%
Imperial	19.0	24.3	52.3	53.8	62.9	73.2	75.8	25.9%
Inyo	0.5	0.5	0.4	0.4	0.4	0.3	0.3	-8.4%
Kern	232.2	315.5	318.1	303.3	304.9	271.7	267.9	2.4%
Kings	17.6	31.6	29.7	28.1	26.5	34.1	40.1	14.7%
Lake	3.4	3.2	2.9	2.7	2.6	3.2	3.0	-2.1%
Lassen	0.6	3.4	3.1	2.8	3.1	4.7	4.4	41.0%
Los Angeles	1,636.7	1,892.2	2,055.2	2,238.2	2,193.1	2,857.8	3,431.5	13.1%
Madera	6.9	9.8	8.2	7.2	6.2	3.6	10.2	6.7%
Marin	37.5	35.7	33.2	35.4	31.9	34.6	33.6	-1.8%
Mariposa	0.0	0.0	0.0	0.0	0.0	0.0	0.0	NA
Mendocino	2.1	2.4	2.2	1.8	15.7	15.5	18.6	43.6%
Merced	2.1	2.8	7.1	13.7	13.4	15.5	14.2	38.0%
Modoc	0.0	0.3	0.3	0.1	0.1	0.0	0.0	NA
Mono	2.1	4.4	3.9	3.6	3.6	3.4	10.7	31.6%
Monterey	12.1	20.7	25.2	36.0	52.3	60.7	74.4	35.4%
Multiple Counties	3.4	3.6	3.5	2.5	2.5	3.8	19.6	33.9%
Napa	4.2	4.0	2.5	6.7	7.7	13.7	35.7	42.8%
Nevada	2.7	2.1	3.8	3.0	2.9	2.2	1.2	-12.7%
Orange	999.6	961.0	881.7	881.3	844.5	813.9	781.0	-4.0%

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Figure 6 (Continued)
Total Local Government Outstanding GO Debt, Aggregated by County
(Dollars in Millions)

County	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98	1998-99	Compound Avg. Annual Percent Change
Placer	8.6	77.3	119.7	140.3	150.6	147.0	170.4	64.5%
Plumas	0.4	0.2	3.0	2.9	2.5	2.4	2.4	37.5%
Riverside	236.4	188.9	231.6	217.8	208.8	262.2	299.8	4.0%
Sacramento	66.4	126.7	166.2	180.4	199.6	231.6	202.7	20.4%
San Benito	1.1	1.3	1.1	0.9	0.8	0.7	3.6	22.2%
San Bernardino	138.7	139.7	249.8	247.9	262.0	261.1	262.2	11.2%
San Diego	237.3	245.6	441.5	193.6	239.3	324.7	458.0	11.6%
San Francisco	624.5	624.5	652.7	727.5	780.1	821.2	892.7	6.1%
San Joaquin	20.7	19.4	15.1	14.0	27.1	18.0	4.7	-22.0%
San Luis Obispo	8.3	24.9	11.2	6.8	5.4	26.2	25.4	20.6%
San Mateo	72.7	69.7	86.9	93.1	169.2	209.1	336.8	29.1%
Santa Barbara	10.5	10.0	9.4	19.0	31.8	57.4	91.3	43.4%
Santa Clara	37.2	106.8	111.5	185.0	493.3	648.6	792.9	66.5%
Santa Cruz	11.3	12.6	16.5	16.4	17.7	35.1	41.5	24.2%
Shasta	5.3	40.7	40.7	43.1	49.3	54.0	53.0	47.0%
Sierra	0.0	0.0	0.0	0.0	0.0	0.0	0.0	NA
Siskiyou	0.7	0.7	0.7	0.7	0.6	2.8	2.8	26.2%
Solano	6.1	44.6	39.5	55.8	64.3	104.8	113.9	63.1%
Sonoma	36.8	108.6	183.6	243.9	313.6	358.4	365.5	46.6%
Stanislaus	112.7	118.6	116.1	103.8	115.0	122.7	115.9	0.5%
Sutter	2.2	2.8	2.1	1.6	1.0	0.6	0.3	-30.6%
Tehama	0.1	2.2	2.0	2.0	4.6	4.9	3.9	81.5%
Trinity	0.1	0.1	0.0	0.0	0.0	0.0	0.0	-31.9%
Tulare	1.9	2.6	8.0	5.7	8.5	8.5	13.3	38.7%
Tuolumne	1.2	1.6	1.4	1.2	1.1	0.7	10.0	42.4%
Ventura	100.8	116.3	124.2	123.3	141.8	194.4	260.5	17.1%
Yolo	4.6	25.1	32.6	36.8	35.4	36.1	56.4	51.8%
Yuba	1.8	1.8	1.3	1.0	0.9	0.8	2.7	7.1%
Total	5,563.3	6,531.8	7,385.9	7,620.6	8,434.9	9,810.9	11,474.4	12.8%

Source: State Controller's Office, Department of Education, Chancellor's Office of the Community Colleges.
Percentages calculated by CDIAC.

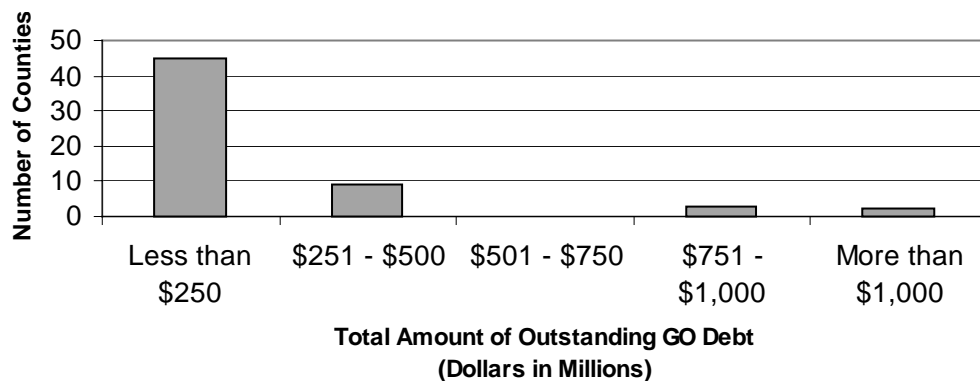
As Figure 6 shows, the State's urban counties generally had higher amounts of outstanding GO debt within their boundaries (with the governmental structures inside Los Angeles County accounting for \$3.4 billion, or 30 percent of the total statewide local GO debt in 1998-99). Conversely, the rural counties reported lower amounts of outstanding GO debt. Indeed, six rural counties (Alpine, Amador, Del Norte, Mariposa, Modoc, and Sierra) reported that no governmental unit within its boundaries had outstanding GO debt

in 1998-99. Note that a relatively small portion of outstanding GO debt (\$19.6 billion, or 0.2 percent of the total) crossed county lines (listed as “Multiple Counties”), and was attributable to community college districts.

In explaining the variation among county areas, the more urban counties generally have higher populations and, consequently, a greater need for the types of infrastructure and services associated with municipal indebtedness, such as roads, schools, and water delivery systems. Moreover, they have more aggregate wealth with which to finance these projects.

Figure 7 tallies the number of county areas whose outstanding GO debt falls within various ranges. The figure shows the distribution of the debt data for all 58 county areas (plus a number for the multi-county jurisdictions). For example, in 1998-99, 45 of the 58 county areas (or about three-fourths) had outstanding GO debt levels under \$250 million. In contrast, only two counties had outstanding GO debt levels over \$1 billion.

Figure 7
Frequency Count of Outstanding GO Debt by County, 1998-99



Considering the outstanding GO debt levels for the 58 county areas as a group, the average level is about \$194 million. However, the median level (the value at which there is an equal number of observations both higher and lower) is only \$25 million. This is because the jurisdictional boundaries of California’s counties are drawn such that there is a significantly larger number of smaller counties, with relatively lower levels of outstanding debt. The average is significantly higher than the median because counties such as Los Angeles, with higher amounts of outstanding GO debt, disproportionately influence its calculation.

To account for factors such as population size and wealth, Figure 8 shows outstanding GO debt figures aggregated at the county level when standardized for

differences in population and personal income (a proxy for wealth).¹⁰ Figure 8 lists the 1998-99 level of state and county-aggregated local debt in three forms: absolute debt (identical to the data in Figure 6), per capita debt (absolute debt divided by county population), and as a ratio of absolute debt to county personal income. Next to each of these three presentations of the data are the county rankings by the respective measure, for comparison purposes. When viewed in context of population and personal income, the outstanding GO debt figures tell a much different story, as discussed further below.

¹⁰ CDIAC chose to examine population and personal income because research indicates that these two variables are good predictors of changes in outstanding debt.

Figure 8
Comparison of Various Measures of 1998-99 State & Local Outstanding GO Debt

County	Outstanding Debt (in millions of \$)		Per Capita Outstanding Debt (in \$)		Outstanding Debt to Personal Income Ratio	
	Level	Rank	Level	Rank	Level	Rank
State of California	16,202	NA	476	NA	1.76%	NA
Total, California Counties	11,474	NA	337	NA	1.25%	NA
Alameda	1,214.6	2	838	3	2.71%	4
Alpine	0.0	53	0	53	0.00%	53
Amador	0.0	53	0	53	0.00%	53
Butte	36.7	27	180	28	0.91%	23
Calaveras	18.8	31	462	8	2.35%	7
Colusa	0.4	49	17	47	0.09%	47
Contra Costa	358.5	9	389	12	1.08%	19
Del Norte	0.0	53	0	53	0.00%	53
El Dorado	38.4	26	245	22	0.90%	25
Fresno	394.7	7	493	7	2.57%	6
Glenn	1.8	47	62	42	0.40%	39
Humboldt	5.8	38	46	44	0.22%	45
Imperial	75.8	20	504	6	3.04%	2
Inyo	0.3	50	17	48	0.07%	48
Kern	267.9	12	404	11	2.16%	10
Kings	40.1	25	324	16	2.18%	9
Lake	3.0	43	52	43	0.25%	44
Lassen	4.4	40	125	34	0.79%	28
Los Angeles	3,431.5	1	353	13	1.39%	13
Madera	10.2	36	84	37	0.51%	34
Marin	33.6	29	136	33	0.27%	43
Mariposa	0.0	53	0	53	0.00%	53
Mendocino	18.6	32	210	24	0.98%	20
Merced	14.2	33	67	40	0.41%	38
Modoc	0.0	53	0	53	0.00%	53
Mono	10.7	35	996	2	4.15%	1
Monterey	74.4	21	188	26	0.72%	30
Multiple Counties	19.6	NA	NA	NA	NA	NA
Napa	35.7	28	285	19	0.91%	22
Nevada	1.2	48	13	49	0.05%	49
Orange	781.0	5	280	20	0.88%	26

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Figure 8 (Continued)
Comparison of Measures of 1998-99 State & Local Outstanding GO Debt

County	Outstanding Debt (in millions of \$)		Per Capita Outstanding Debt (in \$)		Outstanding Debt to Personal Income Ratio	
	Level	Rank	Level	Rank	Level	Rank
State of California	16,202	NA	476	NA	1.76%	NA
Total, California Counties	11,474	NA	337	NA	1.25%	NA
Placer	170.4	16	729	5	2.30%	8
Plumas	2.4	46	116	35	0.49%	35
Riverside	299.8	11	197	25	0.90%	24
Sacramento	202.7	15	170	29	0.66%	31
San Benito	3.6	42	72	38	0.35%	40
San Bernardino	262.2	13	155	32	0.79%	29
San Diego	458.0	6	159	31	0.60%	32
San Francisco	892.7	3	1,131	1	2.69%	5
San Joaquin	4.7	39	8	50	0.04%	50
San Luis Obispo	25.4	30	102	36	0.44%	36
San Mateo	336.8	10	458	9	1.11%	18
Santa Barbara	91.3	19	224	23	0.82%	27
Santa Clara	792.9	4	458	10	1.18%	17
Santa Cruz	41.5	24	162	30	0.54%	33
Shasta	53.0	23	310	17	1.47%	11
Sierra	0.0	53	0	53	0.00%	53
Siskiyou	2.8	44	62	41	0.31%	41
Solano	113.9	18	291	18	1.27%	15
Sonoma	365.5	8	812	4	2.73%	3
Stanislaus	115.9	17	260	21	1.28%	14
Sutter	0.3	51	3	51	0.01%	51
Tehama	3.9	41	70	39	0.41%	37
Trinity	0.0	52	0	52	0.00%	52
Tulare	13.3	34	36	46	0.20%	46
Tuolumne	10.0	37	182	27	0.93%	21
Ventura	260.5	14	350	15	1.24%	16
Yolo	56.4	22	350	14	1.43%	12
Yuba	2.7	45	43	45	0.28%	42

Source: CDIAC calculations using Department of Finance population and personal income data.

- Debt Per Capita.** When adjusted for population, the counties with larger overall levels of outstanding GO debt no longer completely monopolize the top positions. For example, though Los Angeles County had by far the most outstanding debt (\$3.4 billion), the county's ranking drops to 13th in outstanding GO debt per capita. Similarly, the counties of Orange and San Diego drop respectively from fifth and

sixth in absolute terms to 20th and 31st in per capita terms. In contrast, several smaller, rural counties, including Mono, Imperial, and Calaveras, placed among the highest in per capita outstanding GO debt. Exceptions to this trend include several Bay Area counties where voters' support of GO bond measures historically has been strong. San Francisco, Alameda, and Sonoma counties rank first, third, and fourth respectively in outstanding GO debt per capita. At the bottom end of the spectrum, adjustments for population generally do not influence the rankings for those counties with relatively lower levels of absolute outstanding GO debt. For example, for those counties ranked 40th or beyond in absolute outstanding GO debt, only one – Plumas – moved more than six positions when ranked on a per capita basis.

- ***Debt as a Percent of Personal Income.*** When adjusted for personal income, the rankings of the counties change in a manner similar to that of debt per capita. The counties with the largest levels of outstanding GO debt are not exclusively among the highest in terms of debt as a percent of personal income. Also, the counties that ranked high in per capita outstanding GO debt generally ranked high when the debt was expressed as a ratio to personal income. Los Angeles County, highest in terms of overall GO debt outstanding, again drops to 13th position when its debt is expressed as a percentage of personal income. Similar to the per capita debt data, Mono and Imperial counties head the list when the data is expressed as a ratio of personal income. In fact, both counties' percentages are well over twice that of the aggregate percentage for all local governmental entities.

V. CONCLUSIONS AND FUTURE OUTLOOK

This report seeks to shed light on outstanding GO debt levels in state and local governmental jurisdictions around California. The data collected on outstanding GO debt can be considered along a variety of dimensions. For instance, between 1992-93 and 1998-99, local agency outstanding GO debt grew over three times faster than the figure for the State. When local agency debt is considered by type of governmental entity, K-12 school districts were responsible for both the largest proportion of outstanding GO debt and the fastest compound average annual rate of growth.

Standardizing the debt levels by adjusting for such factors as population and personal income affect the conclusions drawn about the relative debt levels among the various regions in California. When outstanding GO debt for all local governmental entities is aggregated to the county level, the more urban counties rank the highest in terms of total debt, while the rural counties rank the lowest. However, when the county-aggregated outstanding GO debt levels are compared to reflect factors such as the differences in population and personal income, the amount of outstanding GO debt in the rural counties looks proportionally higher to that in the larger, more urban counties.

The analysis presented here provides a “broad-brush” overview of outstanding GO debt. This data provides a snapshot, but not a complete picture of the relative amounts of outstanding debt held by various jurisdictions. Given the shortcomings of currently available data, CDIAC is exploring other possible options, including collecting data from national debt repositories via CUSIP numbers. The viability of such options will depend on factors such as cost, availability and comprehensiveness of any alternative data source. In the meantime, CDIAC will work with the data currently available through state agencies.

CDIAC invites feedback on this report or any other comments than can assist the improvement of its educational activities and efforts toward the important goal of protecting California’s tax dollars. In addition to this report, CDIAC offers debt issuance and public investment seminars to provide local officials with relevant information to assist them with their responsibilities. CDIAC continues to work to promote best debt issuance and investment practices through legislation, through its toll-free Hotline (1-888-CDIAC49) for local agencies to confer with CDIAC regarding questionable debt and investment practices, and timely information on such practices and other issues of vital importance to promoting and protecting the public trust.

APPENDIX¹¹

OVERVIEW OF GENERAL OBLIGATION DEBT

Definition and General Features. General obligation bonds are bonds secured either by a pledge of the full faith and credit of the issuer or by a promise to levy taxes in an unlimited amount as necessary to pay debt service, or both. The State of California's general obligation bonds are full faith and credit bonds, to which the State's General Fund, rather than any particular tax revenue, is pledged.

With very few exceptions, local agencies are not authorized to issue “full faith and credit” bonds. The general obligation bonds of such agencies are typically payable only from ad valorem property taxes, which are required to be levied in an amount sufficient to pay interest and principal on the bonds coming due in each year. Some local agencies may also pledge revenues of the facilities financed by the bonds as additional or even primary security for the bonds. Interestingly, relatively few statutes (other than those relating to the State's bonds) use the designation, “general obligation bonds” and it may be more accurate to think of these obligations as “unlimited tax bonds.”

Under Article XVI, Section 18 of the State Constitution, no county, city, town, or school district may incur indebtedness without a two-thirds popular vote¹². Some other local government agencies may be authorized by statute to issue bonds without voter approval, or with a simple majority vote. However, under Section 1(b) of Article XIII A of the Constitution, any new indebtedness to be repaid from an ad valorem tax levied against real property must be approved by a two-thirds vote of the qualified electors, and the bonds may only be used to finance “the acquisition or improvement of real property”. Therefore, whenever a local agency considers using general obligation bonds to finance projects, it is important to understand what constitutes real property, and what is an acquisition or improvement thereof. In other words, what types of projects and property may and may not be financed with general obligation bonds?

Projects Which May Be Financed. There is no direct legal authority defining what is and what is not “real property” for purposes of Article XIII A, and therefore the language of Article XIII A, “for the acquisition or improvement of real property” is subject to interpretation in each instance. There is general agreement among practitioners and issuers that the limitation to “real property” means that vehicles, equipment, furnishings, supplies and labor may not be financed with general obligation bonds. Generally, anything which is truly portable, or which can be removed from land or a building without causing damage to the land or building, may not be financed.

“Improvement” does not include ordinary repairs, maintenance costs, or supplies, and these may not be financed with proceeds of general obligation bonds. Fixtures, equipment and materials which become part of or are affixed to land or to a building in

¹¹ This section is excerpted from *CDIAC's Debt Issuance Primer*. The *Primer* was published in 1998.

¹² Current law now permits certain education-related GO bonds to be approved with a 55 percent majority vote.

the course of making legitimate improvements to real property are probably appropriately considered real property improvements, although direct legal authority for financing each of these particular items is lacking. Similarly, labor costs, professional fees (such as for general contractors, architects, real estate appraisers and brokers), real estate closing costs, and other costs directly connected to real property acquisition and improvement are probably also appropriately financed from general obligation bonds.

While ongoing maintenance may not be financed with general obligation bonds, even though it contributes to the physical condition of real property and its improvements, “deferred maintenance” probably may be financed, especially as the term is used by school administrators. So long as “deferred maintenance” refers to projects which involve replacement of major systems or building components, such that the project is properly classified as an “improvement to real property”, it can be financed with general obligations bonds. Thus, for example, if a roof is so badly deteriorated that it must be replaced rather than patched, this is properly deemed an improvement to real property.

Not every interest in land is “real property” for purposes of Article XIII A. For example, while local agencies may acquire permanent ownership in a fee and lesser interests such as easements, it is doubtful that “acquisition” of a leasehold interest is a permitted use of general obligation bond proceeds. Therefore, payment of rent--the price of a leasehold interest--without acquiring some more permanent interest, would probably not be permitted.

Interest earnings on bond proceeds generally must also be applied to approved real property purposes, unless an issuer has specific authority permitting another use. If authorized by statute, costs incidental to issuing the bonds, including costs of conducting the bond election, may be paid from the proceeds of the bonds.

While the State Constitution permits general obligation bonds to be issued to finance any real property acquisition and improvements, additional limitations may be specified by the authorizing statutes for the various entities permitted to issue general obligation bonds. Local agency general obligation bonds are customarily used to finance publicly owned facilities, including public office buildings, school buildings, utility system improvements and infrastructure. Local agencies may also use general obligation bonds to finance privately owned facilities that sufficiently advance a public purpose. The legislature has authorized cities and counties, for example, to make loans to private landowners for seismic safety improvements to real property. Unless it is for a public purpose, the giving or lending of a local agency's credit or public funds is prohibited by Article XVI, Section 6 of the State Constitution. Even if appropriately authorized under State law, when private parties directly and specially benefit from public financing, the interest on the general obligation bonds may be taxable.

Each local agency has its own authority to finance various projects. Many of the statutes authorizing local agencies to issue general obligation bonds have not been updated to conform with the restrictions of Article XIII A, discussed above. Thus, some

issuers would appear to have the authority to issue bonds for equipment or operating costs, and to do so when authorized by a simple majority vote or without any popular vote at all. All such statutes must be read in the context of the overriding constitutional limits.

Interpretation of Voter Authorization. General obligation bonds may be used only for those purposes approved by the voters. Taken together, the statutes (or charter provisions) authorizing the election and the issuance of the bonds, the resolution calling the election and the specific language contained in the ballot measure itself, create a manner of contract which is binding upon the local agency once the voters have given their assent.

The ballot measure proposed to the voters must recite the purposes for which the proceeds will be used, but the local agency's governing body may choose how precisely or how generally to state those purposes. Courts have held that a general statement of the question reserves to the issuer the flexibility to spend bond proceeds as it wishes, within the terms of the authorization. This is true despite any specific promises or assertions made by public officials or bond supporters at the time of the election, including in official plans, ballot arguments or campaign propaganda. On the other hand, if the ballot measure is too specific with regard to the projects to be financed--e.g., "a two-lane steel and concrete bridge 300 feet in length traversing the railroad tracks at 14th Avenue"--the local agency may be bound to build what the voters have approved, and may not be able to change its plans in the future despite changes in circumstances or spending priorities.

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