

## SAM - BUDGETING

### GENERAL OBLIGATION (GO) BONDS

6871

(Revised 10/2017)

**Definition:** General Obligation (GO) bonds are a form of long-term borrowing in which the state issues municipal securities and pledges its full faith and credit to their repayment. Bonds are repaid over many years through semi-annual debt service payments. The California Constitution requires that GO bonds be approved by a majority vote of the public and sets repayment of GO debt before all other obligations of the state except those for the public school system and public institutions of higher education.

**Key statutory authorities:** [Article XVI, Section 1](#) of the California Constitution prohibits the Legislature from creating debt or liability exceeding \$300,000 without a majority vote by the people, except in the case of war.

Government Code, Title 2, Division 4, Part 3 (Section [16650](#) et seq.) sets out the statutory framework for GO bonds. Statutory authorization for individual GO bond measures is placed programmatically in the codes (e.g., water authorizations are located in the Water Code).

#### Key highlights:

1. GO bond debt is a major component of the overall bond debt burden of the state. The most commonly used measure of debt is annual debt service as a percentage of General Fund revenues.
2. There is no California statutory or constitutional limit on the absolute level (or any other measurement) of state debt, other than that specified in Article XVI.
3. GO debt repayment is continuously appropriated and therefore not included as a separate appropriation in the annual Budget Act.
4. Debt service consists of both principal and interest payments.
5. GO debt repayment structure is determined by the State Treasurer's Office (STO) at the time bonds are sold based on a variety of factors including the taxable status of the bonds and bond market conditions, among others.
6. The California Constitution authorizes GO bonds with up to 50-year maturities, but federal tax requirements and market practice usually dictate that bonds be issued no longer than 30 years. In addition, certain bond acts may further limit maturities.
7. GO bond Finance committees, created in respective bond acts, must authorize the sale of new money and refunding bonds, as well as the use of interim financing as authorized in law (See Section 6878).

(Continued)

## **SAM - BUDGETING**

(Continued)

### **GENERAL OBLIGATION (GO) BONDS**

**6871** (Cont. 1)

(Revised 10/2017)

8. Finance surveys departments semiannually to determine their projected cash flow needs for GO bond-funded programs.
9. The STO is the agent for sale and trustee for state GO bonds.