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Californians United for a Responsible Budget
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AB900 borrows $7.5 billion to build new prisons:
Fact Sheet on the use of Lease Revenue Bonds to Build Prisons

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QUESTION	ANSWER
How are most prison construction projects funded?	Most prisons are built with borrowed money. The state borrows money by selling bonds. <u>AB900 authorizes the state to borrow $7.5 billion using revenue bonds to build 53,000 new prison and jail beds without voter approval.</u>
What is a bond?	A bond is a loan. The state borrows money and then promises to repay lenders (investors who buy bonds) with interest over seven or more years. There are two types of bonds the state uses to build a prison: General Obligation Bonds and Lease Revenue Bonds.
What is a General Obligation Bond?	A General Obligation Bond is a loan voters must approve by 2/3 because the debt is guaranteed by “the full faith and credit” of the state. That means residents agree to be taxed to repay the loan.
What is a Lease Revenue Bond?	A Lease Revenue Bond (LRB) is a loan made to the state that is repaid by income (“revenue”) generated by the project. Examples include toll bridges, hospitals and colleges. Voters do not approve LRBs because taxes are not supposed to be used to pay for the projects. When voters began to reject prison construction general obligation bonds, politicians avoided the need for voter approval by funding prisons with LRBs. <u>The only reason to use an LRB to build a prison is to bypass the will of the voters.</u>

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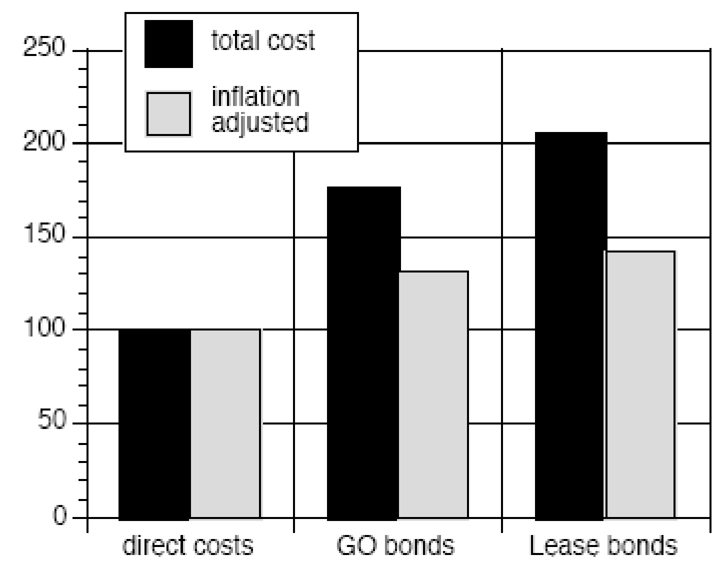
How can the state use Lease Revenue Bonds to build prisons when prisons do not produce any income ("revenue") whatsoever?	Using LRBs to build prisons is based on sleight of hand budgeting. The state says the Department of Public Works builds the prison and incurs the debt and the Department of Corrections generates the "revenue" to repay the debt. But, the "revenue" is simply a transfer of money between two government agencies & all the money comes from the General Fund—your taxes. LRBs are an end run around voters.
Does this mean taxpayers do not vote on Lease Revenue Bonds to build new prisons?	LRBs do not require voter approval, unlike General Obligation Bonds which must be approved by 2/3 of the voters. An end run is an end run.
What are the costs differences to taxpayers between Lease Revenue Bonds and General Obligation Bonds?	LRBs cost taxpayers more. Taxpayers will end up paying at least $12 billion for the $7.5 billion borrowed. Interest rates on LRBs are higher than General Obligation bonds because they are a riskier investment as they are not guaranteed by the "full faith and credit" of the state. LRBs have additional costs that GO bonds do not, such as underwriting fees, debt-service during construction, issuance costs, property and liability insurance and a revenue fund.
If Lease Revenue Bonds cost more, why would politicians use them to build prisons?	Politicians use LRBs for prisons because they believe voters would not approve bonds for new prison construction.
How much does a typical $100 million bond cost taxpayers using a pay as you go model vs. General Obligation Bonds vs. Lease Revenue Bonds?	 Chart from *A Primer on State Bonds*, Legislative Analyst's Office, Jan. 1998

Information adapted from the Real Costs of Prison Project and information from the California State Legislative Analyst's Office.