



Bonds 101: The Basics

“A bond is a formal document that represents a loan, an IOU. The state borrows money by issuing bonds, another source of state revenues. There are two main types of bonds, primarily distinguished by the source of the funds used to pay back the money that has been borrowed:

General Obligation (GO) Bonds, the traditional way of financing major construction projects, are backed by the full faith and credit and taxing power of the state. Their term is usually 25 years and interest is federal tax- exempt; the rates are typically 2 percent below taxable bonds. They are repaid from the general fund and thus are subject to the state debt limit. Authorizing them requires a 60 percent vote by the Legislature.

Reimbursable Bonds are a form of general obligation bonds that are paid from sources other than the general fund. The State of Washington issues general obligation bonds to finance projects authorized in the capital and transportation budgets. The debt-limit reimbursable bond retirement account is created in the state treasury. This account is exclusively devoted to the payment of principal and interest on, and retirement of, bonds authorized by the legislature.

Bonds can be used to finance projects with appropriations of \$250,000 or more for specific accounts, including:

- Higher Education Construction
- State Vehicle Parking
- State and Local Waste Disposal
- State Building Construction
- Outdoor Recreation
- Habitat Conservation
- School Construction
- Columbia River Basin Water Supply Development

Complex, detailed regulations specify which expenditures are allowable under bond funding of projects. Additionally, the I.R.S. places certain limitations on the issuance of tax-exempt bonds.”ⁱ

ⁱ League of Women Voters of Washington (LWVWA) Civic Engagement Project (CEP), *Basic Information on Bonds*, 2009.