What is a General Obligation Bond?

Background:

In June 1986, California voters approved Proposition 46, a constitutional amendment that restored the authority to issue General Obligation bonds to counties, cities and school districts. General obligation bonds, also called G.O. bonds, are backed by the full faith and credit of the issuing agency and are paid for by increasing local property taxes above the limit imposed by Proposition 13. Because they involve an increase in property taxes, they require voter approval.

Authorizing Legislation

Legislation for general obligation bonds can be found in the California Government Code §53506 *et seq.*. Legislation specific to school districts and community college districts is found in the California Education Code §15100 *et seq.* These statutes authorize these agencies to issue G.O. bonds to finance the acquisition and construction of public facilities and real property.

G.O. bonds are commonly used to finance schools, libraries, jails and other large capital projects. Bond proceeds cannot be used for equipment purchases or to pay for operations and maintenance. Certain other local governments are also authorized to issue G.O. bonds upon voter approval, under specific legislation.

The agency issuing a G.O. bond is authorized to levy an ad valorem property tax at the rate necessary to repay the principal and interest of the bonds. The property taxes being used to repay a G.O. bond issue are not subject to the usual ad valorem limitations based on property tax rates, however special overall limitations exist to avoid excessive G.O. debt:

- Cities have a maximum G.O. debt limit of 15% of the assessed valuation of all property within their boundaries.
- Counties have a maximum G.O. debt limit of 5% of assessed valuation.
- Unified school districts have a maximum G.O. debt limit of 2-1/2% of assessed valuation.
- Elementary and high school districts have a maximum G.O. debt limit of 1-1/4% of assessed valuation.

How is a G.O. Bond Measure Approved?

All general obligation bonds must be approved by a 2/3rds majority vote. To begin the process, the local agency initiates a G.O. bond election by passing a resolution placing the proposed bond issue on the ballot. The resolution must specify and describe the public project to be financed. Voter election packets must include information about the proposed increase in the tax rate, ballot arguments, and the specific uses of the proceeds of the bonds. If sources of income other than property taxes are to be used to service the bonds, the voter pamphlet must disclose the effects of that upon the projected tax rate.

If the measure is approved, the agency will begin levying the amount necessary to pay principal and interest on the bonds on the next property tax bill.

How is the Annual Charge Determined?

G.O. bonds are repaid with proceeds from ad valorem property taxes. These are calculated based on the assessed value of property.

How Long Will the Charge Continue?

The charge on the property tax bill will continue until the bonds have been paid off in full.

California

PROPERTY TAX
INFORMATION

General Obligation Bonds are used by cities, counties and school districts to finance the acquisition and construction of public facilities and land.

www.californiataxdata.com

100 Pacifica, Suite 470
Irvine, California 92618
Tel 949-789-0660
Fax 949-788-0280

California Tax Data
The Leader in Property Tax Disclosure Since 1986