Bond Financing Principles*

In order to determine how to use bond financing to meet statewide goals, it is important to set forth some fundamental principles. The Committee based its recommendations for the flood, water, and natural resources infrastructure bonds on the following principles:

State Funds For State Responsibilities

The State has specific responsibilities regarding floods, water, and natural resources. These include:

- <u>Enhancement of Public Trust Resources</u>
  Enhancement denotes actions beyond those required under existing regulatory requirements. This responsibility almost always requires the use of bond funds.

- <u>Public Health & Safety</u>
  The Legislature has delegated this responsibility to cities, counties, and special districts. However, if a local government fails to meet this responsibility, it is the duty of the state to step in and correct the problem. Sometimes, but not always, this requires the use of bond funds.

- <u>Establish State Resources Goals & Remove Impediments To Achieving Those Goals</u>
  The Legislature sets resources goals and policies by enacting statutes and creating new programs. There may, however, be impediments to achieving the goals, such as lack of experience in working towards that goal, institutional conflicts, or fear of liability. Sometimes, but not always, bond funds may be used to aid in planning or first steps to help remove those impediments.

- <u>Establish & Enforce Rules of Behavior</u>
  While actually establishing and enforcing the rules of behavior rarely requires the use of bond funds, occasionally bond funds are necessary to fund research or the completion of products necessary to support the establishment or enforcement of rules of behavior.

Subsidies Should Be Avoided

Providing state funds for things that are not a state responsibility should be characterized as a subsidy, and should be avoided. Two key reasons for avoiding subsidies are:

- <u>Subsidies Mask Economic Price Signals</u>
  Economists would argue this leads to less than optimal resource allocation.

- <u>Subsidies Violate The Beneficiary Pays Principle</u>
  If the state is not the responsible financial party, then someone else will be.

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* From: Senate Committee on Natural Resources and Water, Report to the Conference Committee on Infrastructure Bonds, March 1, 2006, Pages 4-5.

Bonds Should Aid in the Implementation of Policy, Not Create Policy

Bond acts authorize the issuance of public debt to further public policy. There are many reasons why it is best to avoid setting public policy in the bond acts themselves.

- Water Resources Policy Is Constantly Evolving
  Policy set in a bond is often too static. This is evidenced by the large amount of "orphan" bond funds; i.e., bond funds that were authorized but unused 10 or more years after authorization.

- "Solutions" To Problems Are Changing
  There is a new awareness that traditional solutions to flood risk and local and regional water problems may no longer be appropriate. Resolving these problems will require research and extensive policy debate on the outcomes of that research. Bonds should be designed to allow flexibility to reflect new and better solutions.

- Bonds Should Be Flexible To Evolving Policy
  The legislative process is the appropriate way to change policies. To the extent possible, bonds should be drafted to allow policies to evolve and still provide the necessary funds.

Respect Separation Of Powers And The System Of Checks And Balances

Bond acts should not be used to circumvent the constitutionally established roles of the legislative and executive branches.

- The Legislative Branch's Power To Allocate Funds.
  One of the fundamental checks on the executive branch is the budget process. In that process, the role of the Governor is to develop and propose a budget; the role of the Legislature is to review the proposed budget, amend where necessary, and to appropriate the funds to implement the budget. Bond funded programs that are funded by continuous appropriations bypass the formal budget process with its inherent checks and balances system. Consequently, continuously appropriated bond programs should be avoided.

- Oversight and Transparency
  Another of the fundamental checks on the executive brand is the Legislature's oversight. The Legislature's ability to perform this function is greatly aided by requiring programs to be developed and implemented through open and transparent processes.

The Committee has endeavored to ensure that its recommendations conform to the bond financing principles set forth above.