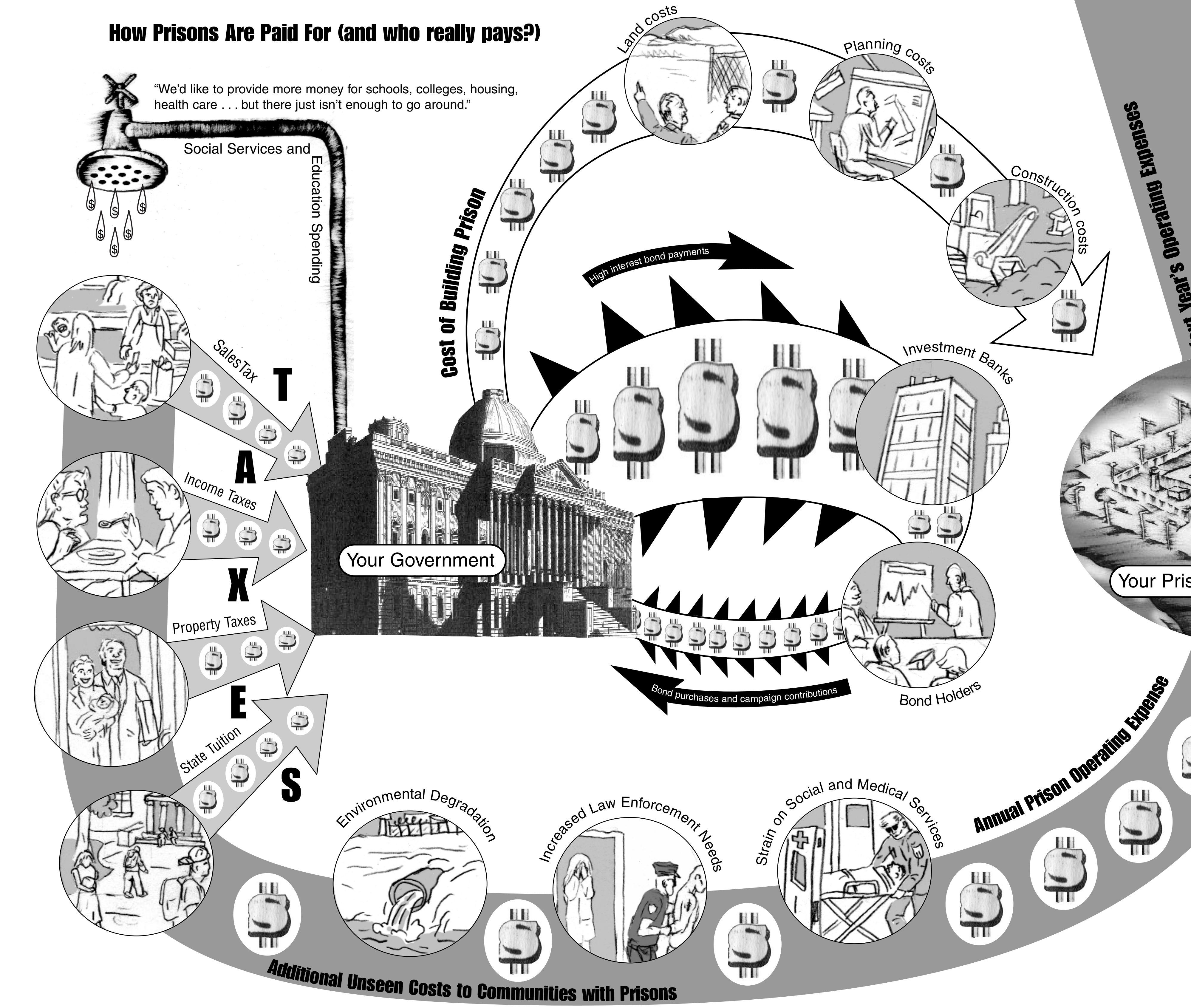
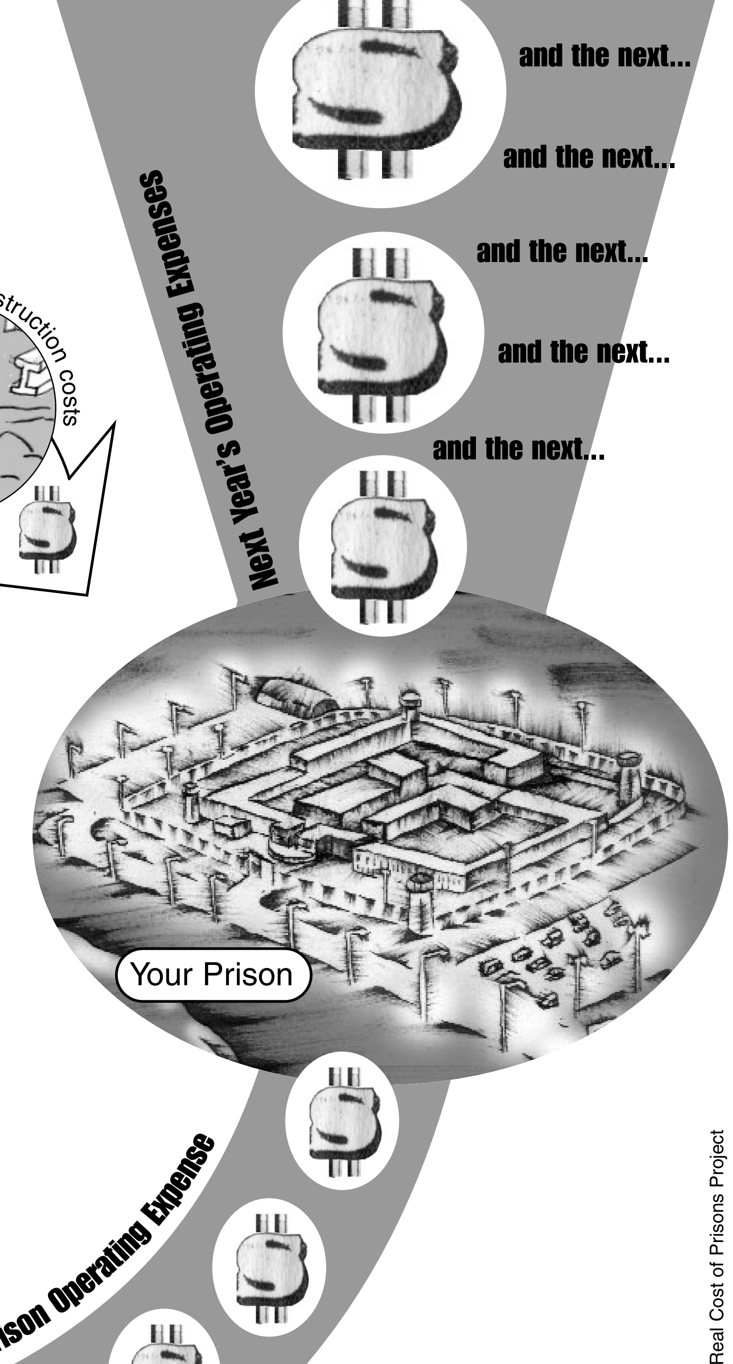
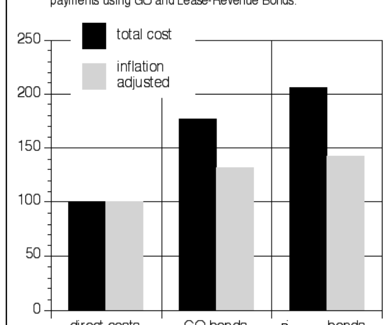
How Prisons Are Paid For (and who really pays?)





How Much Does a Bond Typically Cost?
The cost of bonds depends on the interest rates at which they are sold and the length of time until they are paid off. Figure below compares direct cost of a $100 million project financed on a pay-as-you-go basis and the total principal and interest payments using GO and Lease-Revenue Bonds.



source: A Primer on State Bonds. Jan.1998. Legislative Analyst's Office, California. available at: http://www.lao.ca.gov

What is a bond? A bond is a loan made to a government. Governments pay investment bankers to make the loan attractive ('structure the deal') and find lenders ('issue the bonds'). Governments then pay lenders ('bondholders') principal and interest on the loans.

Governments issue two broad categories of bond: General Obligation (GO) bonds and Revenue Bonds.

General Obligation bonds are guaranteed by the taxing power of the state. Most GO Bonds require approval by the voters, and in many states by 2/3 of the voters. Revenue Bonds are designed to be paid off by revenues generated by the project being built, like highway tolls, bridge tolls, student tuition, etc.

Most prisons are now built with some form of Revenue Bond, even though prisons generate no real revenue and Revenue Bonds cost taxpayers more to repay. Why would a state use the most expensive way to borrow money to build prisons? Because voters have consistently voted down GO Bonds to build more prisons. Using revenue bonds to build prisons is a means of getting around the voters and taxpayers.