



# Financing Public Infrastructure with Municipal Bonds

**Transactions and Use Tax Citizens' Advisory Committee**  
**March 26, 2025**



# Agenda

- The various financing options
- Advantages of each option
- Equity considerations
- Preferred option
- “What’s an advocate for infrastructure to do?”

# Three Options for Financing Public Infrastructure

Get someone  
else to pay

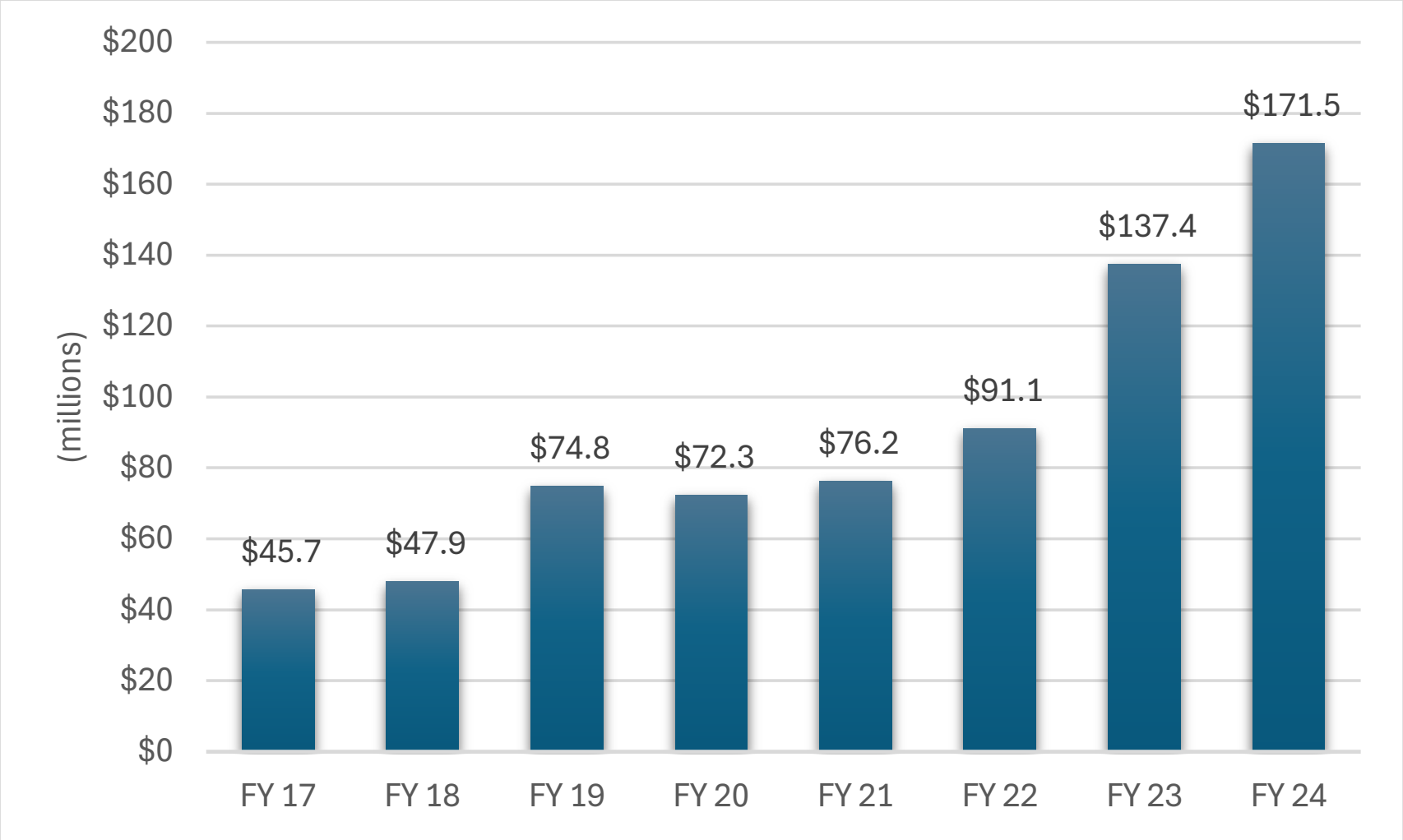
Pay cash

Borrow, and  
pay over time

# Advantages of Someone Else Paying

- Obvious
- Public Works already does so, to a great extent
  - Federal grants, SB 1 money from the State, L.A. County transportation funds, etc.
  - Has resulted in a remarkable ramp-up of Citywide spending on infrastructure

# General Capital Projects Fund Expenditures on Capital Improvements, including from Measure A



Source: Audited financial statements for each year

# Advantages of paying cash (“Pay-as-you-go”)

Maximum budgetary flexibility → No fixed debt service payments each year

No IRS constraints, which do apply to the use and timeliness of tax-exempt bond proceeds

# Advantages of Borrowing, and Paying Over Time

- Tax-exempt interest → rate Lowest Cost of capital of any borrower
- Projects can be undertaken sooner
  - Don't have to wait until enough Pay-as-you-go cash has accumulated
- Projects can be completed before construction costs rise too high, too fast
  - Construction cost inflation > Interest rate City can earn on accumulated Pay-as-you-go cash
- Promotes what economists call “intergenerational equity”



# Intergenerational Equity

- General notion of “fairness between the different generations of taxpayers”
- Via annual debt service (i.e., principal + interest), municipal bonds spread the cost of paying for public infrastructure assets over the useful life of those assets
- Thereby matching cost with users benefiting from the public infrastructure asset
- For streets, roads, and bridges, “Pay-as-you-go” literally gives a free ride to future generations of taxpayers



# Advantages of borrowing, and paying over time

- Tax-exempt interest → rate Lowest Cost of capital of any borrower
- Projects can be undertaken sooner
  - Don't have to wait until enough Pay-as-you-go cash has accumulated
- Projects can be completed before construction costs rise too high, too fast
  - Construction cost inflation > Interest rate City can earn on accumulated Pay-as-you-go cash
- Promotes what economists call “intergenerational equity”
- Socioeconomic equity

# Further Equity Considerations

Intergenerational Equity: A Family vs. a City

Socioeconomic equity: Implications of Mobility

# Preferred Option

Combination of “Get  
someone else to pay” and  
“Borrow, and pay over time”

# Get Someone to Pay

- Municipal bond interest exemption from income tax → All U.S. and all California taxpayers pay partial cost of Long Beach public infrastructure

# Borrow, and Pay Over Time

- Lower tax-exempt interest rate → Subsidized by non-Long Beach taxpayers
- Projects build sooner
- Sooner → Stay ahead of construction cost inflation
- Fosters intergenerational equity
- Fosters socioeconomic equity

# What's an Advocate for Infrastructure to do?

- IRS constraints
  - 85% within 3 years
  - 100% within 5 years
- Annual debt service (principal + interest)=  
Contractual obligation of City of Long Beach



MEASURE

A

YOUR LB FUNDS AT WORK

# Questions and Discussion

