

# "But How Will We Pay For It?"

## Active Transportation Funding Mechanisms: Municipal Bonds 101



### Introduction

As you convince decisionmakers that safe walking and biking matter, it's important to start thinking about how to pay for the improvements needed to make walking and bicycling safe, easy, and convenient. This fact sheet explains one way to fund active transportation improvements: bonds. It covers what bonds are, how they can be used to pay for active transportation infrastructure, and provides advice for advocates interested in using this method to pay for active transportation.

### Investing In Health

For more general information on active transportation financing and to learn about other ways to pay for street safety improvements, please review our report, [Investing in Health: Robust Local Active Transportation Financing for Healthy Communities](#).

### What Are Bonds?

Bonds are one way that governments borrow money. Bonds are a form of debt issued by governments or corporations that function similarly to a loan. They are used to fund capital projects and are repaid regularly over time with interest.



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## What Are Bonds?

Bonds are long-term loans issued by governments or corporations. Like other loans, bonds are repaid regularly over time with interest. There are many types of bonds; this fact sheet focuses on municipal bonds, which are the primary type of bond used to pay for active transportation infrastructure. Despite containing the word "municipal," municipal bonds aren't just for cities; states, counties, and others can use them, too. These bonds are issued by government jurisdictions (states, cities, counties, school districts, etc.) to pay for capital projects that benefit the public, like building a new school, a park, or a protected bikeway.<sup>1</sup> The government, or issuing body, receives the money to build when people purchase the bonds. Historically, people and financial institutions have and continue to purchase bonds because they are a relatively stable investment; it is very rare for governments to default on their debt obligations. Bonds are not used to fund noninfrastructure activities or other operating expenses, except in extremely rare cases.<sup>2</sup>

There are two main types of bonds used by governments to pay for infrastructure: revenue bonds and general obligation bonds, also known as GO bonds (pronounced "G-O" not "go"). The lifespan of a bond ranges, but typically align with the projected lifespan of the infrastructure it is funding, and can be paid back over 20-30 years, though the range varies by bond. The key differences between these types of bonds are what they finance, their interest rates, and how they are paid back.

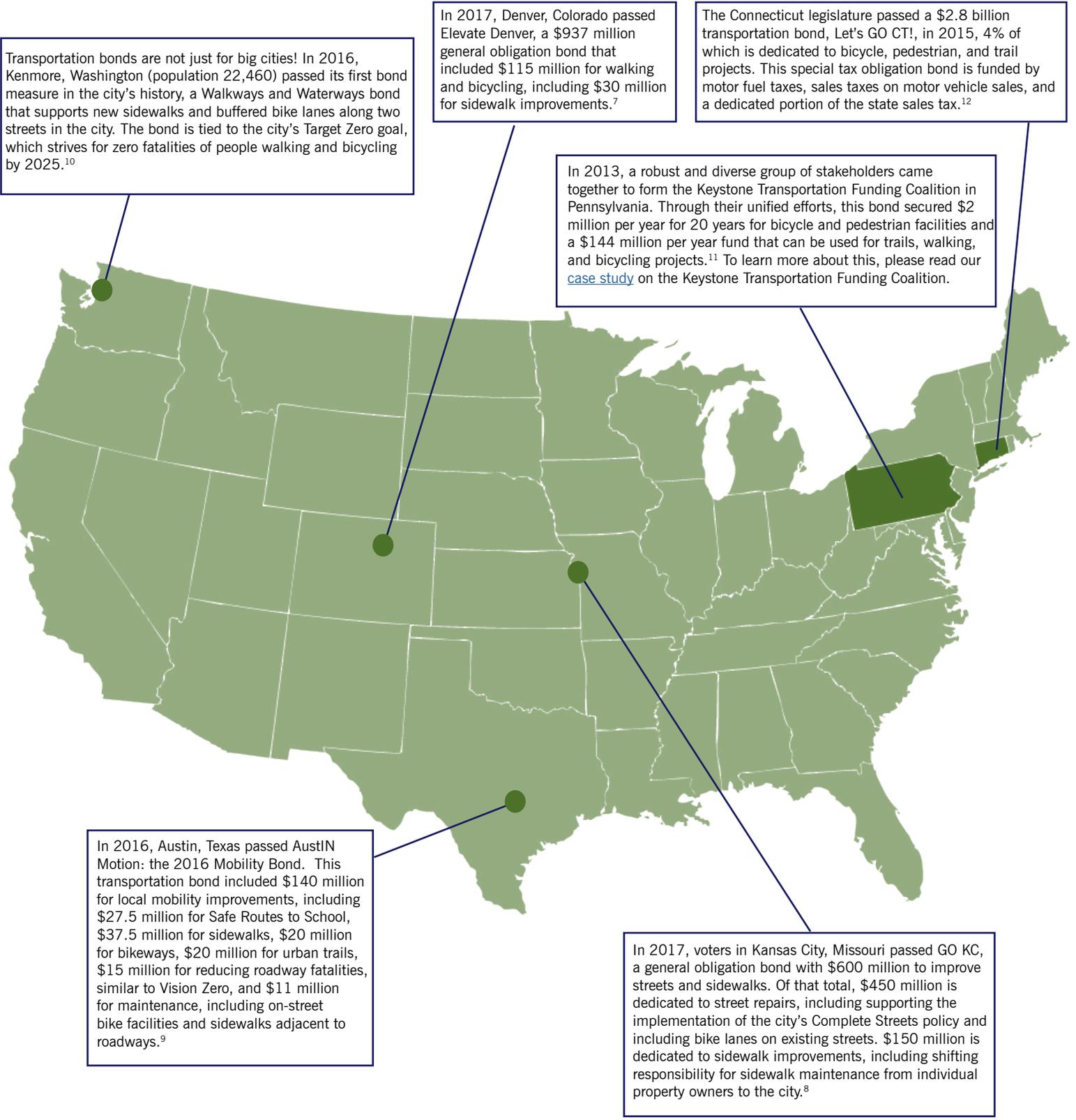
❖ **Revenue bonds** are loans that fund projects that will generate income to pay back the loan. An example is a parking garage: a city or state needs funding to build that parking garage and will collect parking fees that will be used to pay back the initial investment. Revenue bonds are seldom used for active transportation projects, since projects for people walking and biking do not typically cost money to use, and thus don't generate revenue. Revenue bonds have higher interest rates since the debt is less secure (the pledge to repay the debt is backed by future revenues, which have not been collected yet), which makes their overall cost more expensive.

❖ **General obligation bonds** are backed by the "full faith and credit" of the issuing government, which means that governments will be required to use (almost) any means to pay back these debt obligations, including raising taxes. Projects financed by GO bonds do not need to generate revenue like revenue bonds, and there is no collateral needed to secure the funding. The issuing government pledges to pay back the debt from its general fund, which acquires revenue from property taxes, income taxes, sales taxes, and more. The bond issuer, the city or state, often makes its payment on the debt before paying for other expenses, and that is required by law in some states.<sup>3</sup> Defaults on GO bonds are very rare.<sup>4</sup>



## Examples of governments using bonds to pay for walking and biking improvements

Local governments and states all across the country have issued bonds to pay for infrastructure improvements that make it easier and safer to walk and bike. Some examples include those in the following map.



## Why do states and local governments use bonds to fund active transportation infrastructure?

Bonds are one of the main ways that cities, states, and other local governments pay for infrastructure.<sup>5</sup> Nearly one-third of state spending on infrastructure (not just for walking and biking or even transportation as a whole) is in the form of bonds.<sup>6</sup> There are several reasons that governments issue bonds to pay for infrastructure that supports walking and biking. A key reason is that street improvements for walking and biking are expensive (although far less expensive than infrastructure for cars!). If governments had to wait until they had enough cash on hand to build projects, it would take longer to build projects than desired. Additionally, bonds are often more palatable than raising taxes, to both elected officials and voters. Moreover, because bonds are routinely used to pay for transportation infrastructure, it can be effective for active transportation advocates to advocate for some of that funding to go toward walking and biking rather than creating a new mechanism for paying for these street safety improvements.

## What kinds of walking and biking projects can bonds finance?

Bonds are specifically used to fund capital projects, that is, physical improvements to infrastructure. Bonds are not used to pay for recurring or operating expenses, like programs and services, which are paid for with existing funds. For active transportation advocates, that means bonds would not be used to fund non-infrastructure activities like walking and biking safety education and encouragement programs. Bonds can pay for things like sidewalk construction and maintenance, bike lanes and bike ways, and Complete Streets implementation. They can include the engineering phase of an infrastructure project, though some cities pay for these with cash to appropriately estimate the cost of the project. A general rule of thumb is that the term of a bond -- how long a city has to pay it back -- should be matched with the projected lifespan of the physical project it is funding.

## Are there any limitations to using bonds to pay for active transportation?

The ability for states and cities to take on debt, how much debt, sources of repayment, and approval mechanisms vary by state.<sup>13</sup> An important first step is to find out whether your state's constitution or laws and/or city charter place any limitations on the amount, type, or use of debt. The National Conference of State Legislatures reports that some states require enabling legislation to allow bonding for transportation projects.<sup>14</sup> Work with a lawyer with relevant experience, such as a city attorney, municipal lawyer, or state attorney general, or consult a state association with relevant experience, such as your state's municipal league or association of counties.

## What are characteristics of strong, worthwhile active transportation funding mechanisms?

Advocating for funding for active transportation can be tough work. To make sure the outcomes are worth the effort, it is important to think through what constitutes a "win," that is: what would support the kinds of outcomes you wish to see? Here are a few considerations:

- Funding levels are high enough to construct significant projects
- Funding is long term, rather than a one-time investment
- Ongoing community engagement is built into the process from a campaign to identify a new sources of funds through the ongoing spending of those funds
- Funding is available for both street infrastructure projects & also education and encouragement programs (noninfrastructure)
- Funding is prioritized for projects in high need areas with a focus on areas and populations with high rates of traffic-related injuries and fatalities, health indicators, rates of walking for children and adults, historic levels of investment, etc.
- Funding avoids negative incentives or significant unintended consequences, especially for low-income communities and communities of color
- There is transparency in the project selection process and in spending

## The pros and cons of using bonds to pay for active transportation infrastructure

Using bonds to pay for transportation infrastructure is extremely common. If you are interested in using bonds to pay for walking and biking improvements, here are a few pros and cons to consider.

Pros	Cons
Bonds are used to fund relatively large projects, which means they can be used to make significant improvements to a city or state's walking and biking infrastructure.	Bonds cannot be used to pay for education or encouragement activities (noninfrastructure) to promote walking and bicycling.
Paying for infrastructure with a bond means a local government or state doesn't need all the money up front. This means that infrastructure can get built more quickly without spending time saving funds for a specific project.	A bond is essentially a loan, which means it needs to be paid back with interest. That means that the total cost exceeds the actual cost to build something. Interest payments are not insignificant. If you've ever had a student loan, a car payment, or credit card debt, you may be able to relate.
Bonds are, by design, long-term funding mechanisms. Using bonds spreads payment out over time, which means that the cost is being spread across multiple generations. Infrastructure lasts for a long time (or it should!), so one generation alone should not have to bear the cost. <sup>15</sup>	Cities and states need a decent credit rating in order to borrow money, which can be a barrier for some communities. If local governments or states rely too heavily on borrowing money to pay for infrastructure, it can affect their credit rating and negatively affect their ability to borrow money in the future. <sup>16</sup>
If you live in a state that poses significant barriers to raising taxes or the political likelihood of a new tax is unfavorable, a bond may be a more palatable approach.	The cost to issue a bond plus interest on the debt can end up hugely increasing the overall cost of the project, which means a new revenue source, like a tax, or an appropriation would be much more cost effective, but require having the cash on hand/up front.
Interest on municipal bonds is exempt from federal taxes and many state taxes (and in some cases – city taxes! <sup>17</sup> ), which makes them an attractive investment instrument for both institutions and retail investors. This means that there is demand for purchasing municipal bonds, which is ultimately how the issuing city or state receives money to build projects.	The interest payments on bonds are what makes them appealing to investors, however, it means that public funds are being used to accumulate wealth for institutional and retail investors, which can be viewed as transferring money from public coffers to private wallets.
Bonds are commonly used to pay for transportation projects, and there are examples of how they've been used to pay for infrastructure that supports walking and biking.	Bonds and other types of public finance are complex and technical, which means the average person is unlikely to be keenly aware of the details. Community engagement in the process of advocating for walking and biking infrastructure in a bond requires a concerted effort.

## Advice for advocates interested in pursuing active transportation funding using bonds

### *Identify the opportunity*

Advocates explain that the work to secure funding for walking and biking as part of a bond starts several years before the bond is actually voted on.<sup>18</sup> It is important to know when bonds are being considered to identify your opportunity. One way to identify this information is to review your state or city's Capital Improvement Plan, which identifies upcoming capital projects and proposed approaches to financing these improvements.

### *Always try to get a piece of the pie*

As described above, using bonds to pay for active transportation happens at both the state and local levels, which means there is an opportunity to include active transportation funding in both local and state bonds. Advocates who have run successful campaigns to include active transportation funding in bond measures advise that when transportation funding is being considered as part of a bond, active transportation advocates should always try to include funding for walking and bicycling in transportation bonds at any level of government.

### *Work as a coalition*

Unlike appropriations or the revenues from a tax, which typically have discrete purposes, bonds can address multiple purposes or projects. When large transportation bonds are being considered, it is likely that it includes funding for highways, local roads, trails, and more. This means that active transportation advocates may have to align efforts with advocates and issues areas they may not ordinarily agree with in order to secure funding for walking and biking projects as part of the overall package.

### *Convey how the bond will be used to implement plans and policies*

In states and/or cities where voters must approve the issuance of a bond, it can be helpful to have project lists, active transportation plans, and policies to communicate what specific projects will be built or maintained as a result of this bond issuance. Some voters may perceive that a bond is a blank check to the government, so having policies and plans to point to may allay some voters' concerns. On the other hand, when there is a list of projects that a bond will fund, voters may not approve if they don't feel like they will benefit from the listed projects.

*If you have to choose, brush up on your message, not the financing mechanism*

If you are pursuing active transportation funding, it is important to know enough about the funding mechanism you are trying to secure, but you do not need to become a municipal or state finance expert. Hone your message, build your coalition, and advocate based on the merit of your issue. If you are successful at conveying that funding is needed, your city or state's capital budget director or finance director will deal with how to operationalize the bond.

## Conclusion

There is no one size fits all funding mechanism to improve conditions for walking and biking. Every city and state has to consider its legal and political context to determine what is best, and advocates are encouraged to consider whether bonds are a good fit for their state or community. Bonds are a routine source of transportation infrastructure funding and provide significant, long-term funding to develop infrastructure that promotes walking and bicycling.



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