



# **STATUS REPORT ON CALIFORNIA'S BOND DEBT**

## **ASSEMBLY BUDGET HEARING**

**Bill Lockyer**  
**State Treasurer**

**December 14, 2009**

# Roles of State Entities in General Obligation (GO) Bond Financings

## ■ Department of Finance

- Prioritizes project needs among the State's GO Bond Acts
- Determines which bond acts and departments receive funding from bond sales

## ■ State Treasurer's Office

- Prepares, markets and issues bonds to fund project needs
- Works with State agencies and departments to ensure bond funded projects meet federal tax law requirements

## ■ Departments

- Administer bond programs and approve disbursement of bond funds

## ■ State Controller's Office

- Processes and tracks bond expenditures for funded projects
- Ensures proper accounting and treatment of bond funds



# The State of California's GO Bond Ratings are the Lowest of Any State in the Country

Current Ratings of California State Debt

Type of Debt	Fitch Ratings	Moody's Investors Service	Standard & Poor's
General Obligation Bonds	BBB	Baa1	A
Revenue Anticipation Notes	F2	MIG 1	SP-1
<b>CSCDA Proposition 1A Bonds<sup>(1)</sup></b>	BBB	Baa1	A
<b>State Public Works Board Lease Revenue Bonds<sup>(2)</sup></b>	BBB-	Baa2	A-
Economic Recovery Bonds	A	A1	A+

GO Ratings of the 10 Most Populous States (Ranked by Population)

State	Moody's Investors Service <sup>(3)</sup>	Standard & Poor's <sup>(3)</sup>	Fitch Ratings <sup>(3)</sup>
<b>California</b>	<b>Baa1</b>	<b>A</b>	<b>BBB</b>
Texas	Aa1	AA+	AA+
New York	Aa3	AA	AA-
Florida	Aa1	AAA	AA+
Illinois	A1	AA-	A
Pennsylvania	Aa2	AA	AA
Ohio	Aa2	AA+	AA
Michigan	Aa3	AA-	A+
Georgia	Aaa	AAA	AAA
New Jersey	Aa3	AA	AA-
North Carolina	Aaa	AAA	AAA

(1) Bonds were issued by the California Statewide Communities Development Authority.

(2) Bonds issued by the SPWB for the University of California and the California State University have higher ratings than shown above.

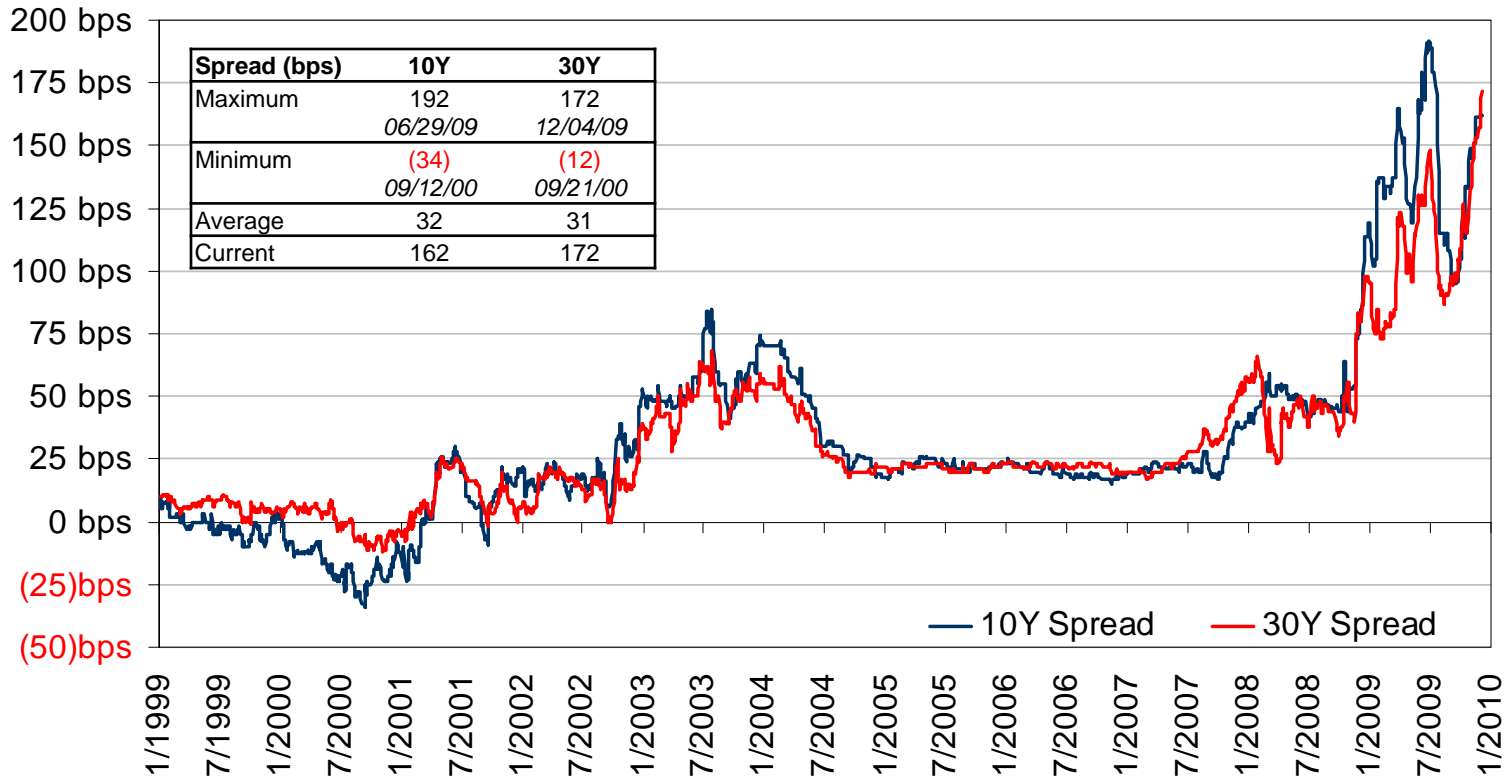
(3) Moody's Investors Service, Standard & Pools, and Fitch Ratings, as of December 2009



# California Pays a Significant Penalty for its Low Credit Ratings

- As a result of the State’s low credit ratings, large sales volume, and general market conditions, California’s tax-exempt GO bond credit spreads<sup>(1)</sup> have widened dramatically.
- Current credit spread between the 30-year CA GO Municipal Market Data (MMD) index and the “AAA” GO MMD index is 172 basis points (1.72%), an all-time high.

**CA GO MMD vs. AAA GO MMD Spread**



(1) Credit spread means the difference in interest rates for bonds in the various rating categories.



## Credit Spread Differential Results in Higher Interest Costs

- Estimated cost differential between \$1 billion of California tax-exempt GO bonds and \$1 billion of “AAA” rated tax-exempt GO bonds based on current secondary market trading interest rates is as follows:

	California GO Bonds <sup>(1)</sup>	AAA GO Bonds <sup>(1)</sup>	Cost Differential	% of Cost Differential
<b>Total Debt Service (30 Years)</b>	\$2.16 billion	\$1.78 billion	\$380 million	21.3%
<b>True Interest Cost</b>	5.93%	4.23%	1.70%	40.2%

- If this cost differential is applied to the \$47.48 billion of Authorized but Unissued GO bonds, the gross total additional cost would be approximately \$18 billion.

(1) Assumes 30 year bond with level debt service. MMD rates as of 12/3/09.



# California's Taxable GO Bond Credit Spreads Are Higher Than Selected Comparably Rated Sovereign Entities

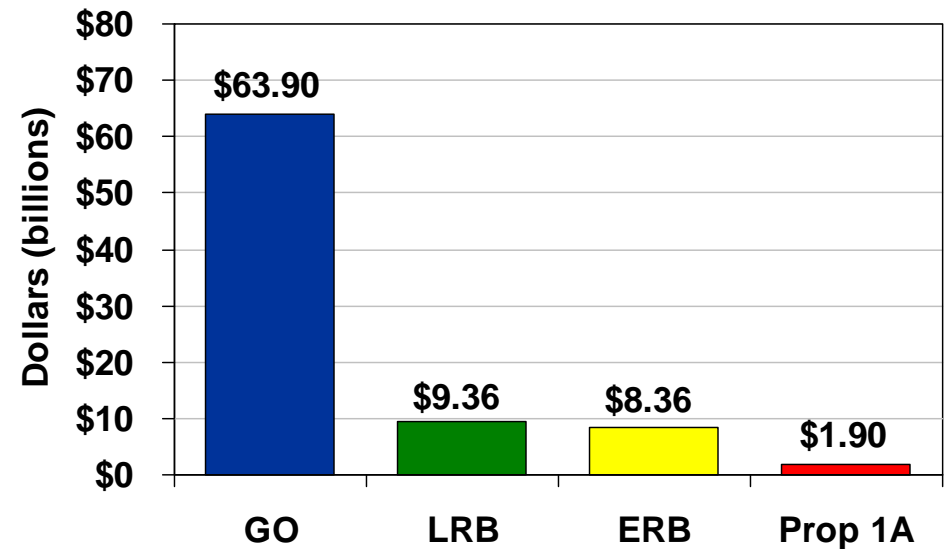
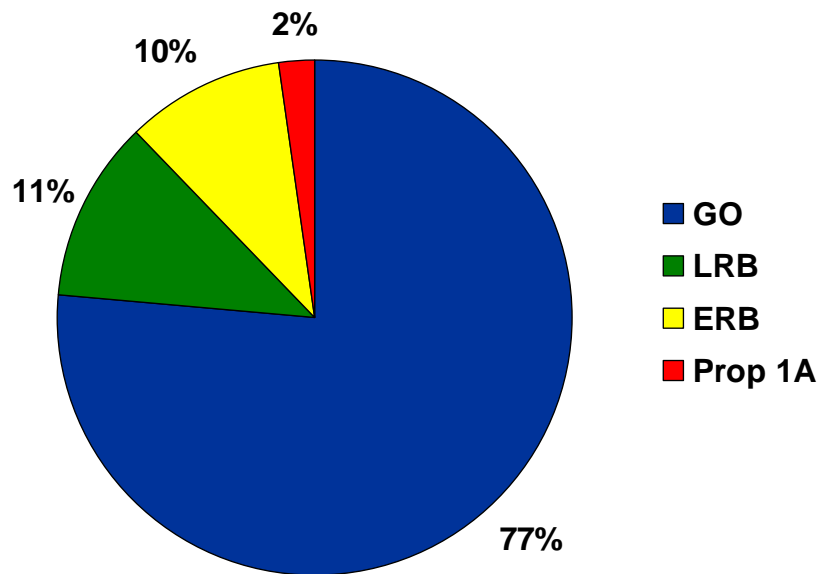
Benchmark 25 to 30-year Taxable Bonds vs. Treasuries

Issuer	Moody's Investors Service	Standard & Poor's	Credit Spread to Treasuries (basis points)
<b><i>State of California</i></b>	<b><i>Baa1</i></b>	<b><i>A</i></b>	<b><i>+310</i></b>
Mexico	Baa1	BBB+	+185
Brazil	Baa3	BB-	+172
Philippines	Ba3	BB-	+266
Indonesia	Ba2	BB-	+286



# California Has a Conservative Debt Portfolio

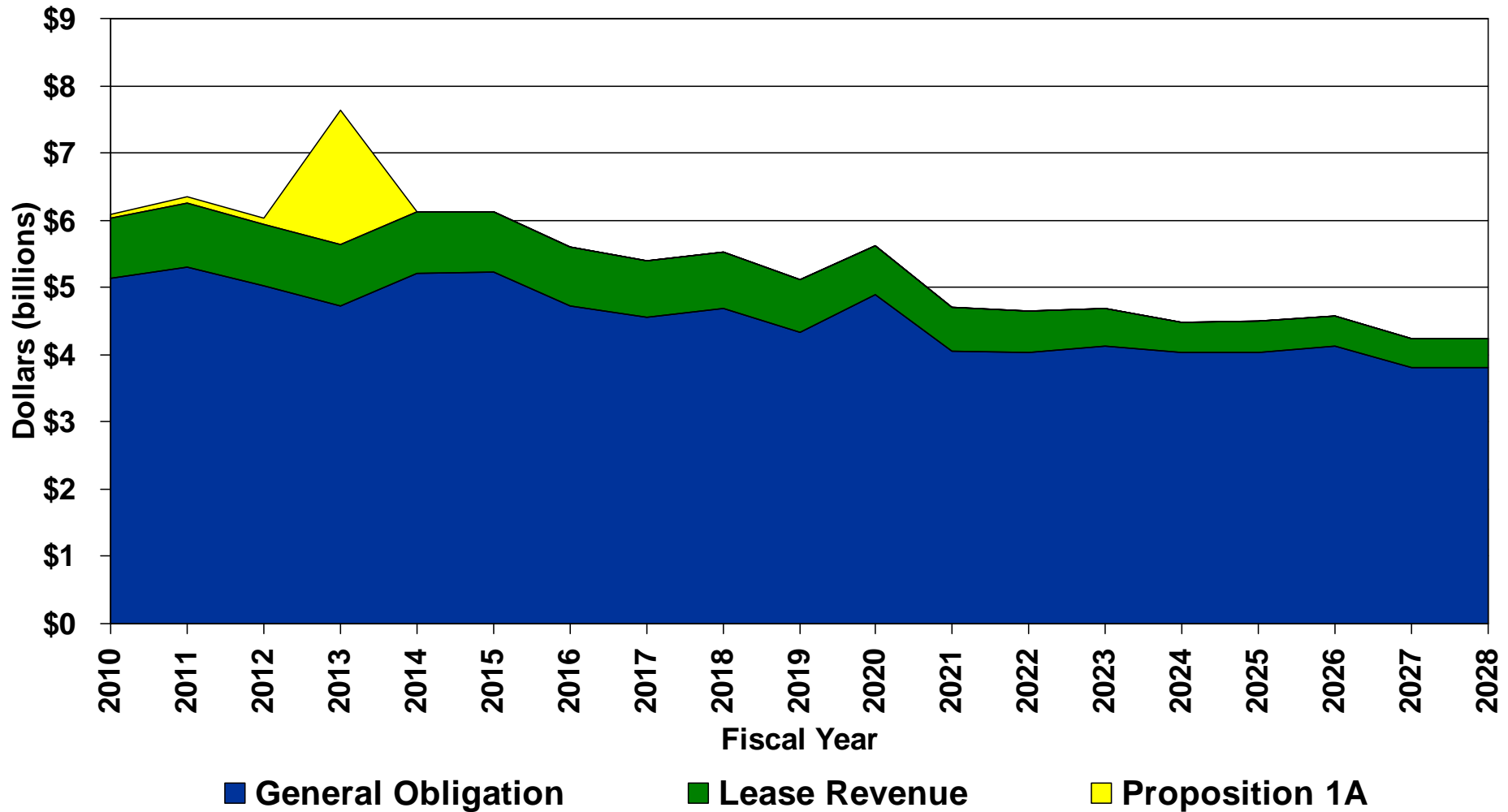
- As of December 1, 2009, California had \$83.5 billion of outstanding long-term debt<sup>(1)</sup>.
  - 93.7% is fixed rate debt (GO Bonds, SPWB Lease Revenue Bonds, Economic Recovery Bonds (ERBs), CSCDA Proposition 1A Bonds)
  - The State does not have any interest rate swaps



(1) Excludes Enterprise Fund Self-Liquidating bonds such as Vets GO Bonds.



# Debt Service on Existing Long-Term General Fund Supported Debt<sup>(1)</sup>



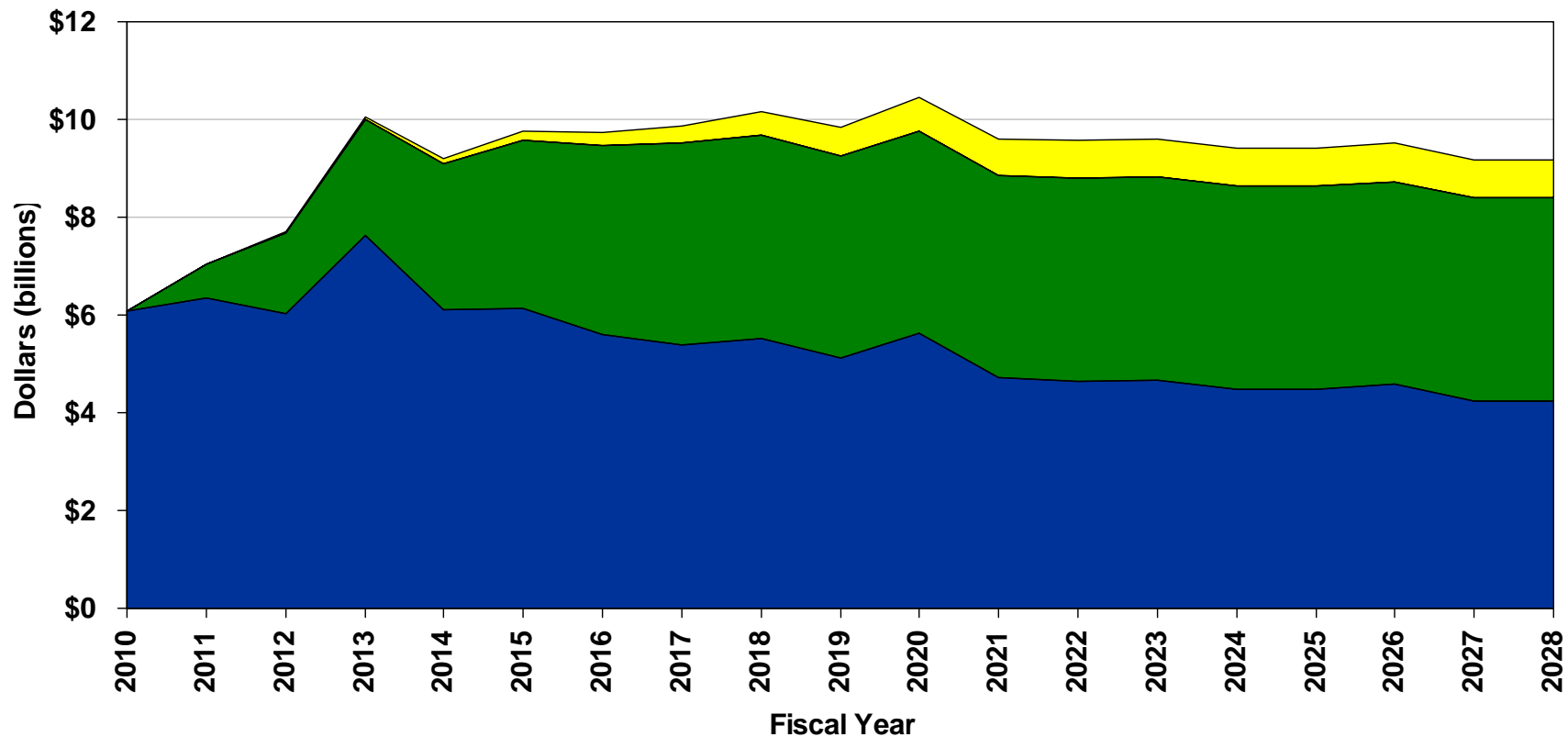
(1) Excludes debt service for Economic Recovery Bonds, which is paid out of a dedicated special sales tax fund, Enterprise Fund Self-Liquidating bonds such as Vets GO Bonds, and General Obligation Commercial Paper. The interest rate on variable rate bonds is assumed to be 4.25% inclusive of all fees. When debt service on ERBs is added to GF supported debt service, debt service peaks at \$8.47 billion in FY 2013.





# Projected General Fund Debt Service on Outstanding Bonds, Authorized But Unissued Bonds, and Proposed Water GO Bonds<sup>(1)</sup>

■ General fund debt service is projected to peak in year FY 2020 at \$10.45 billion



■ Existing Outstanding   ■ Authorized But Unissued   ■ Proposed Water GO Bond

(1) Excludes debt service on Economic Recovery Bonds, Enterprise Fund Self-Liquidating bonds, and General Obligation Commercial Paper. The interest rates on GO bonds and LRBs to be issued are assumed to be 6.25% and 6.75%, respectively. The interest rate on existing variable rate bonds is assumed to be 4.25% inclusive of all fees. When the debt service on ERBs is added to General Fund-supported debt service, debt service is projected to peak in FY 2020 at \$11.29 billion.



# Projected Ratio of General Fund Revenues to Debt Service Assuming Passage of Proposed Water GO Bonds

- Total debt service-to-revenue ratio is projected to peak at **10.98%** in 2012-13.
- Excluding the CSCDA Prop 1A bonds, which are short term bonds with a maturity of June 2013, total debt service-to-revenue ratio is projected to peak at **9.27%** in 2013-14.

Fiscal Year	Estimated Revenues <sup>(1)</sup> (billions)	Estimated Total Debt Service <sup>(2)</sup> (billions)	Debt Ratio
2010	\$88.09	\$6.09	6.91%
2011	87.80	7.04	8.02%
2012	84.40	7.70	9.12%
2013	91.60	10.06	10.98%
2014	99.20	9.20	9.27%
2015	105.70	9.77	9.24%
2016	112.10	9.73	8.68%
2017	118.90	9.87	8.30%
2018	126.10	10.15	8.05%
2019	133.70	9.84	7.36%
2020	141.80	10.45	7.37%
2021	150.40	9.60	6.39%
2022	159.50	9.58	6.01%
2023	169.10	9.61	5.69%
2024	179.30	9.42	5.26%
2025	190.20	9.43	4.96%
2026	201.70	9.51	4.72%
2027	213.90	9.18	4.29%
2028	226.80	9.18	4.05%
<b>Total</b>	<b>\$2,680.30</b>	<b>\$180.06</b>	<b>7.09%</b>



(1) Estimated revenues through FY 2015 are from the LAO's November 18, 2009 Fiscal Outlook Report. Estimated Revenues from FY 2016 to FY 2028 are from CDIAC, per methodology described in the STO's 2009 Debt Affordability Report.

(2) Includes outstanding GO bonds and LRBs, authorized but unissued GO bonds and LRBs, CSCDA Prop 1A bonds, and \$11.1 billion of proposed water bonds. Excludes General Obligation Commercial Paper. When debt service on ERBs is added to General Fund-supported debt service and the revenue from the dedicated quarter-cent sales tax is added to General Fund revenues, debt service peaks in FY 2020 at \$11.29 billion.



# California's Debt has Increased Dramatically Since 2000

- Since FY 1999-00, annual debt service has increased 143% while General Fund revenues have increased only 22%.

Fiscal Year	Revenues <sup>(1)</sup> (\$million)	Debt Service <sup>(2)</sup> (\$million)	Debt Ratio
1999-00	\$71,930.5	\$2,503.7	3.48%
2004-05	82,209.5	3,520.2	4.28%
2009-10	88,090.0	6,090.76	6.91%

(1) Estimated revenues for FY 2010 are from the LAO's November 18, 2009 Fiscal Outlook Report.

(2) Excludes debt service for Economic Recovery Bonds, Enterprise Fund Self-Liquidating bonds and General Obligation Commercial Paper. When debt service on ERBs is added to General Fund-supported debt service and the revenues from the dedicated quarter-cent sales tax is added to General Fund revenues, debt service increases to \$3,812.2 million and \$7,083.4 million in 2004-05 and 2009-10, respectively, and the debt ratio increases to 4.62% and 8.01% in 2004-05 and 2009-10, respectively.



# 2009 Debt Issuance Summary

- In calendar year 2009, California sold a total of \$36.6<sup>(1)</sup> billion of short- and long-term debt in the public capital markets.
- California was the largest issuer of long-term debt relative to both corporate and municipal issuers in the U.S. in calendar 2009.<sup>(2)</sup>

Debt Type	New Money <sup>(1)</sup>	Refunding	Total
General Obligation	\$19,103,675,000	\$640,435,000	\$19,744,110,000
RANs	8,800,000,000	0	8,800,000,000
ERBs	0	3,435,615,000	3,435,615,000
SPWB Lease Revenue	2,190,495,000	0	2,190,495,000
CSCDA Prop 1A	1,895,000,000	0	1,895,000,000
<b>Total</b>	<b>\$31,989,170,000</b>	<b>\$4,076,050,000</b>	<b>\$36,065,220,000</b>

**Total California GO Issuance vs. Total Corporate Issuance<sup>(2)</sup>  
(Top 5 Issuers) (As of 11-16-09)**

Rank	Issuer	Par Amount (\$million)
1	State of California GO Bonds	\$19,744
2	Roche Holdings Inc.	16,500
3	Anheuser-Busch InBeverages	13,500
4	Pfizer Inc.	13,500
5	General Electric Capital Corp.	11,750

**Total California GO Issuance vs. Total Municipal Issuance  
(Top 5 Issuers) (As of 11-16-09)**

Rank	Issuer	Par Amount (\$million)
1	State of California GO Bonds	\$19,744
2	New York St. Dormitory Authority	7,350
3	Puerto Rico Sales Tax Fin. Corp.	5,574
4	New York City GO Bonds	4,613
5	NYC Transitional Finance Auth.	4,344

(1) Excludes \$1.5 billion of privately placed interim RANs, \$500 million of privately placed supplemental RANs and \$736.9 million of privately placed GO bonds.

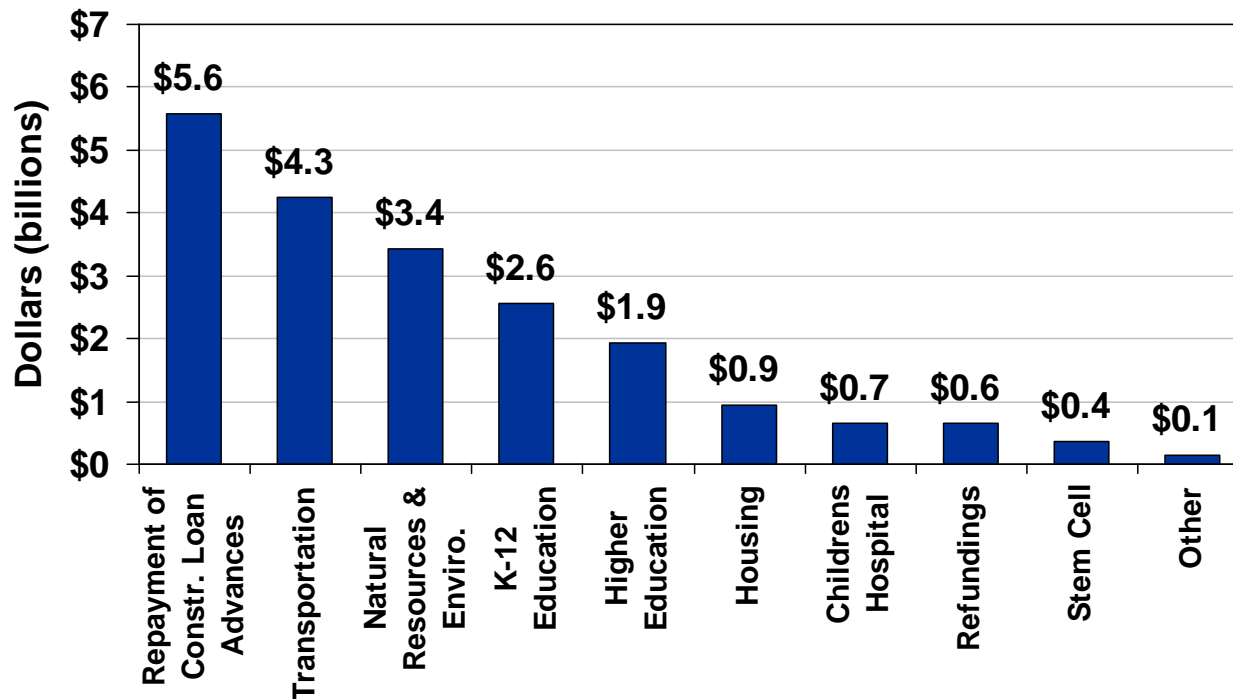
(2) Excludes debt issued by financial institutions under the Federal Temporary Liquidity Guarantee Program and debt issued by any Federal Government agency and other entities through federal guarantee programs.



# 2009 GO Bond Issuance – How the Money Was Used

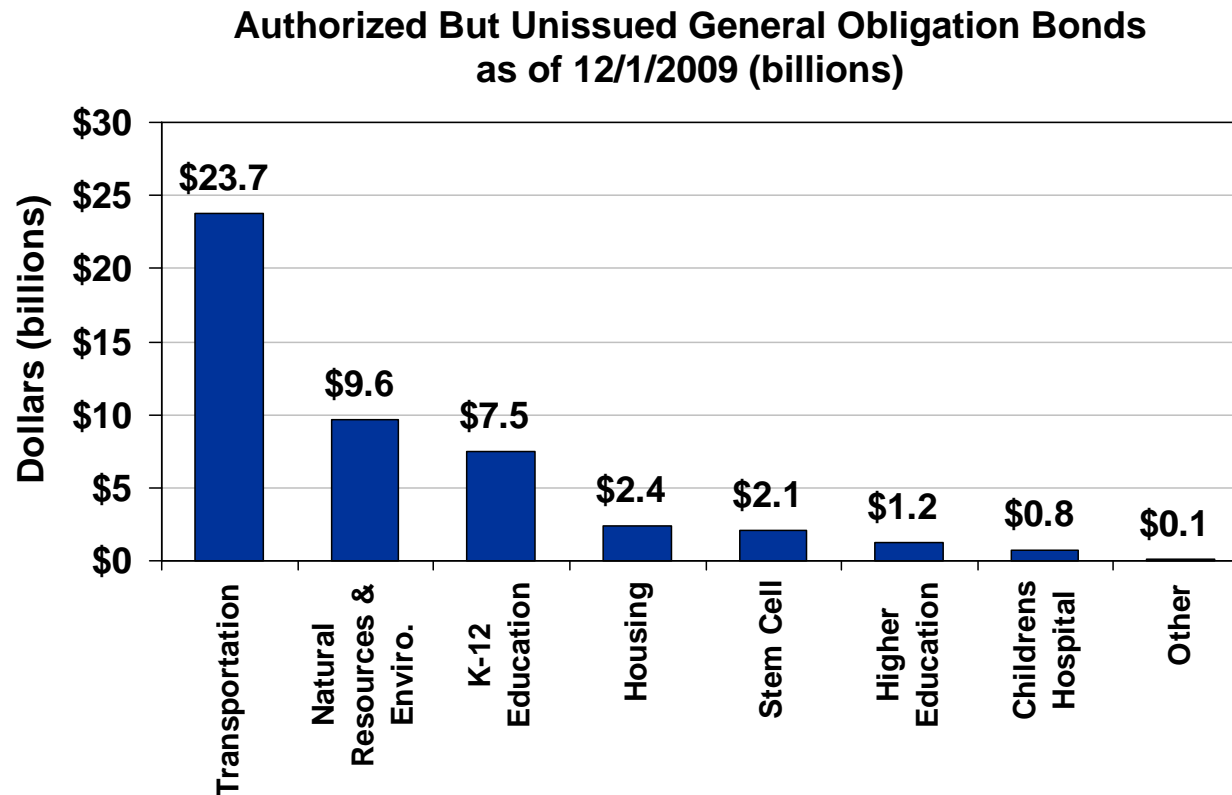
- In calendar 2009, the State issued \$20.48 billion of GO bonds, including \$19.47 billion that were publicly issued and \$736.88 million that were privately placed with public agencies.
  - \$8.02 billion were issued as Build America Bonds (BABs), which were authorized under ARRA

**General Obligation Bond Issuance by Major Program Area  
Calendar Year 2009: \$20.48 billion**



## Where We Stand After 2009

- Despite the extraordinary amount of debt issued in 2009, the State still has:
  - \$47.48 billion of voter authorized but unissued GO bonds, and
  - \$10.2 billion of Public Works Board lease revenue bonds authorized by the Legislature and unissued.



# Status of 2006 GO Bond Acts

Prop	2006 Bond Acts	Voter Approved	Issued	Authorized But Unissued (Dec '09)
1B	Highway Safety, Traffic Reduction, Air Quality, and Port Security Bond Act of 2006	\$19,925,000,000	\$6,065,860,000	\$13,859,140,000
1C	Housing and Emergency Shelter Trust Fund Act of 2006	2,850,000,000	688,375,000	2,161,625,000
1D	Kindergarten-University Public Education Facilities Bond Act of 2006	10,416,000,000	4,974,545,000	5,441,455,000
1E	Disaster Preparedness and Flood Prevention Bond Fund of 2006	4,090,000,000	1,059,580,000	3,030,420,000
84	Safe Drinking Water, Water Quality and Supply, Flood Control, River and Coastal Protection Bond Act of 2006	5,388,000,000	1,284,615,000	4,103,385,000
<b>TOTAL</b>		<b>\$42,669,000,000</b>	<b>\$14,072,975,000</b>	<b>\$28,596,025,000</b>



## 2010 GO Bond Issuance Considerations

- Proceeds from the March, April and October 2009 GO sales will provide funding through June 30, 2010 for existing projects approved prior to December 2008
  - These existing projects will need an additional \$2.5 billion in 2010-11 and \$1.3 billion in 2011-12 to be completed
- \$2.0 billion of proceeds from the November 2009 GO sales may be used to start new projects and would fund those projects through June 30, 2010
  - These new projects would need an additional \$3.2 billion in 2010-11

