

## Joint Informational Hearing on California's Debt Condition

Senate Committees on Governance and Finance  
and Natural Resources and Water

California State Treasurer's Office

February 26, 2013

# California's Outstanding Long-Term Indebtedness

As of February 1, 2013

## General Fund Supported Issues

General Obligation (GO) Bonds	\$72,863,035,000
Lease Revenue Bonds (LRBs)	\$11,691,860,000
CSCDA Proposition 1A Receivables Bonds	\$1,895,000,000
<b>Total General Fund Supported Issues</b>	<b>\$86,449,895,000</b>

## Special Fund/Self Liquidating Issues

Economic Recovery Bonds (ERBs)	\$5,455,690,000
Veterans GO Bonds	\$326,990,000
California Water Resources Development GO Bonds	\$698,820,000
<b>Total Special Fund/Self Liquidating Issues</b>	<b>\$6,481,500,000</b>

**Total Principal Outstanding** **\$92,931,395,000**



- (1) \$223,475,000 of Economic Recovery Bonds were redeemed on February 15, 2013.
- (2) Debt obligations not included: any short-term obligations such as commercial paper or revenue anticipation notes; revenue bonds issued by State agencies which are repaid from specific revenues outside the General Fund; enhanced tobacco securitization bonds and other contingent debt obligations; and "conduit" bonds, such as those issued by State financing authorities on behalf of other governmental or private entities whose obligations secure the bonds.

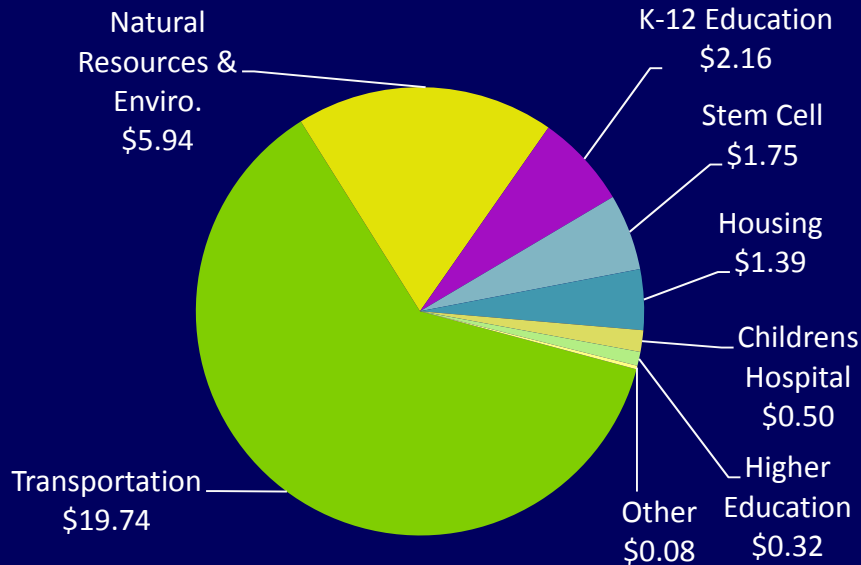
California State Treasurer's Office

# Authorized But Unissued Bonds

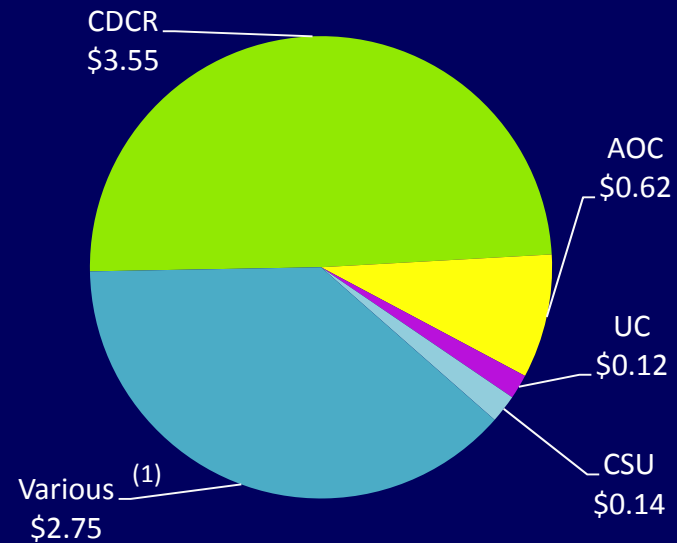
As of February 1, 2013

- The State currently has \$40.39 billion of authorized but unissued bonds, including \$31.89 billion of GO bonds, \$1.31 billion of self-liquidating GO bonds (primarily Vets GO bonds), and \$7.19 billion of State Public Works Board LRBs

**Remaining GO Bond Authorization**  
(Billions)



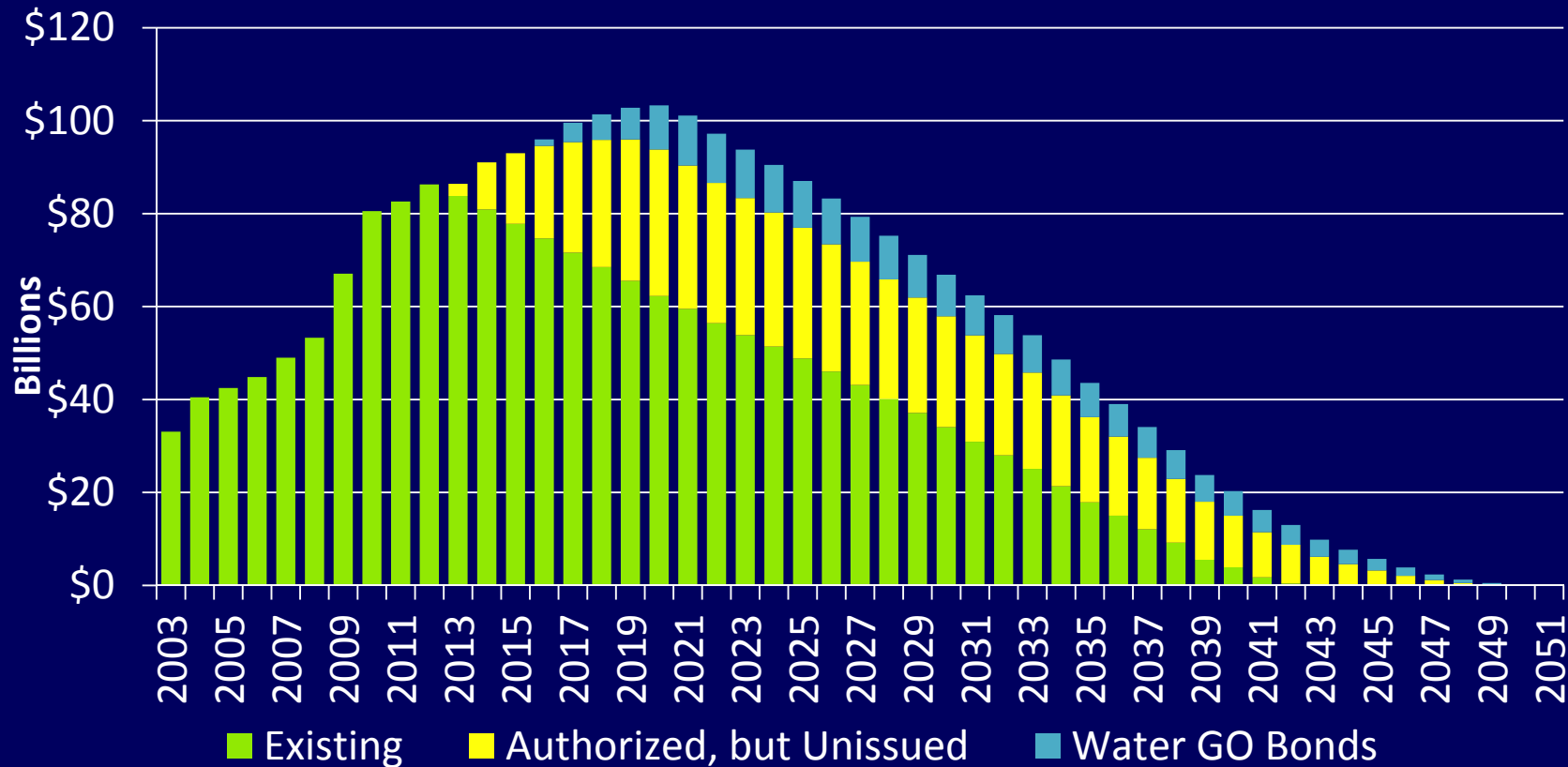
**Remaining LRB Bond Authorization**  
(Billions)



(1) Comprised of authorized but unissued bonds for Department of General Services, California Conservation Corps, Department of Forestry and Fire Protection, Department of State Hospitals, Department of Education, Department of Food and Agriculture, Military Department, Department of Veterans Affairs and Financial Information System for California.

# Historical and Estimated Outstanding Principal of General Fund Supported Debt

■ Estimated future amounts assume issuance of authorized but unissued GO bonds and LRBs, and \$11.14 billion Water GO bond on 2014 ballot <sup>(1)</sup>

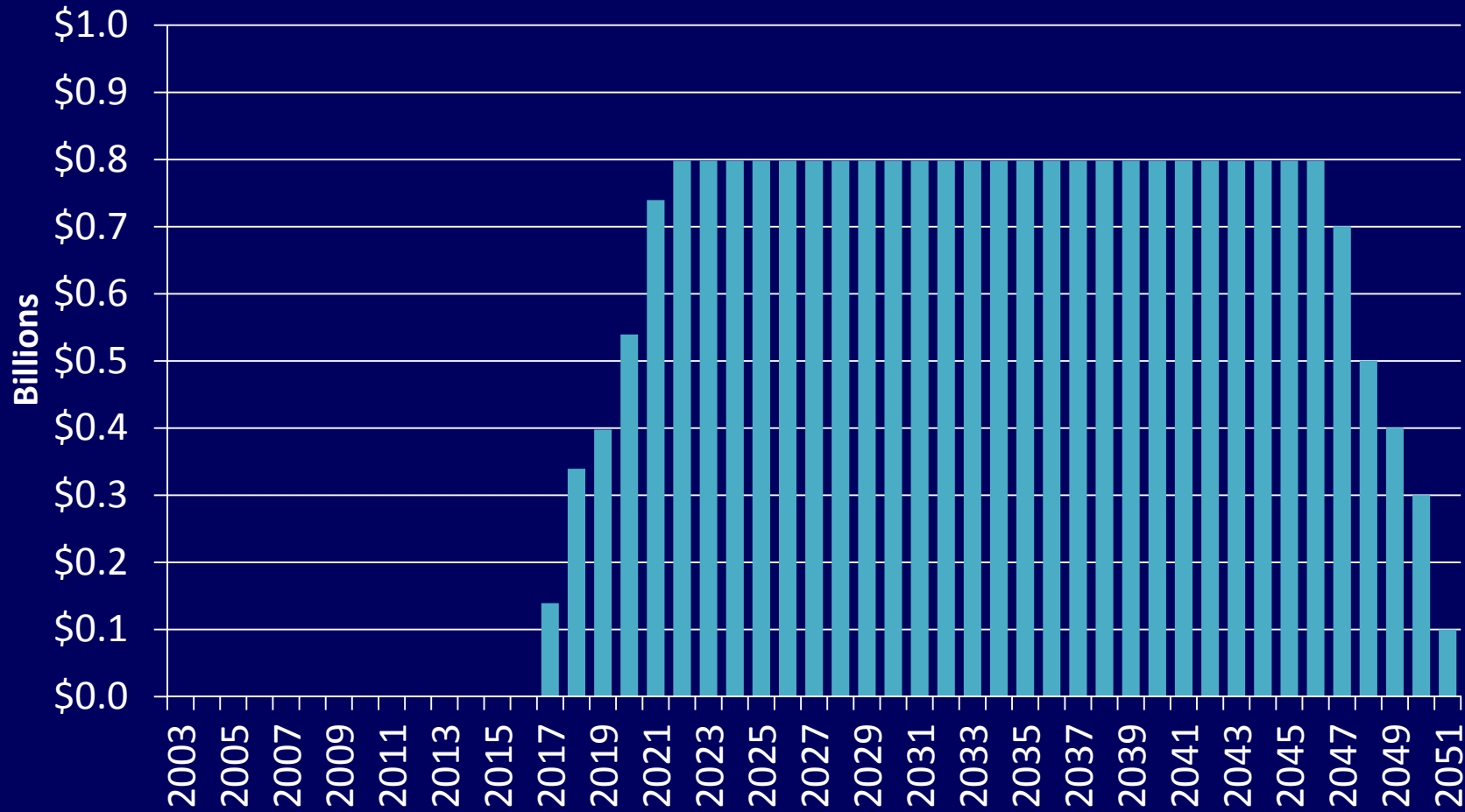


(1) Excludes principal for ERBs, which are paid out of a dedicated special sales tax fund, Self-Liquidating bonds such as Vets GO Bonds, and GO Commercial Paper. The estimated future annual issuance of authorized but unissued GO Bonds and lease revenue bonds is based upon preliminary estimates that total \$29.6 billion and \$5.1 billion, respectively, which is less than the total authorized but unissued bonds for each program. The issuance of the proposed Water GO Bonds totals \$11.14 billion. All future debt is assumed to have a level debt service structure.



California State Treasurer's Office

# Estimated Debt Service on \$11.14b 2014 Water Bond<sup>(1)</sup>

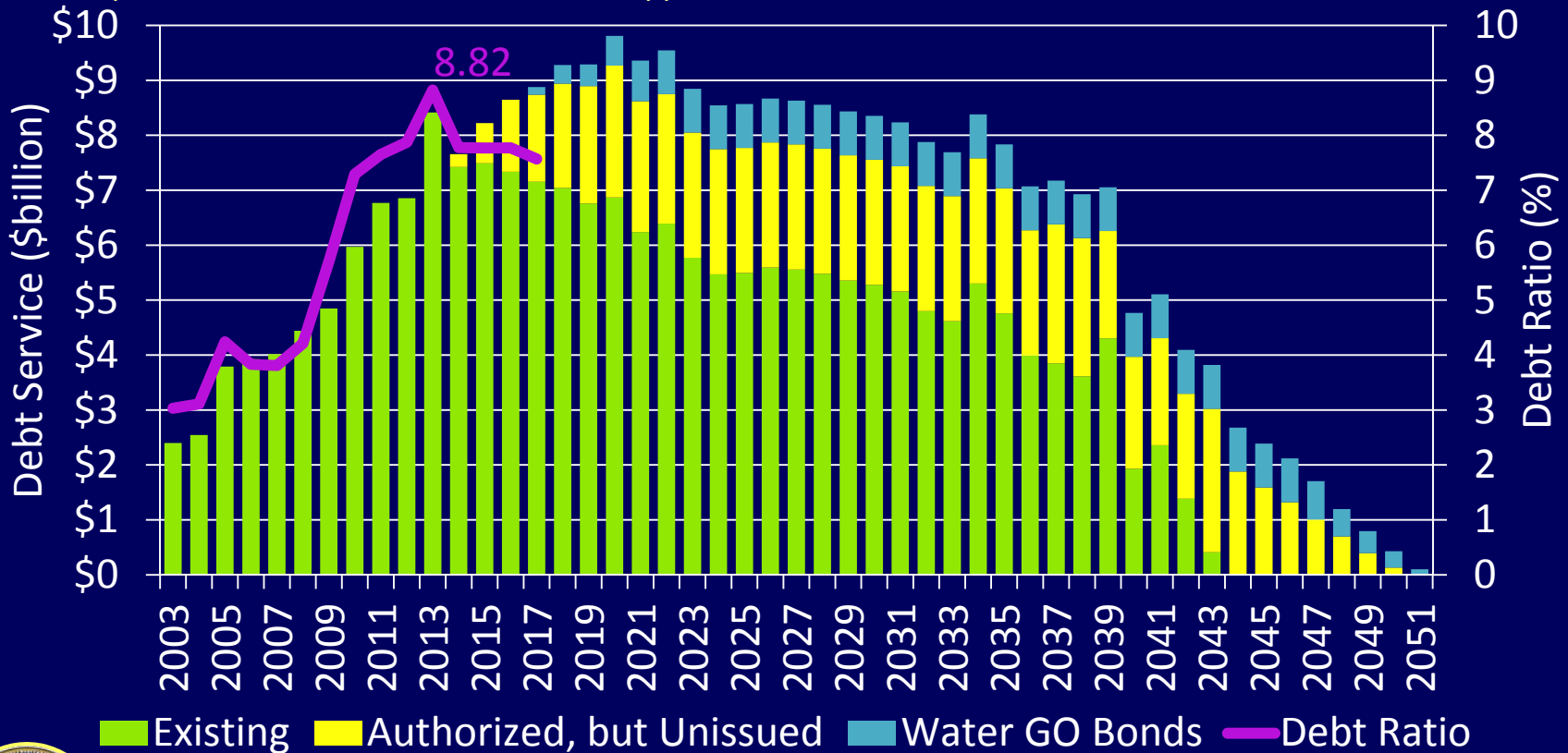


California State Treasurer's Office

(1) Assumes semiannual issuances of \$1.4 billion of the proposed Water GO Bonds from Spring 2016 to Fall 2017 and from Spring 2019 to Fall 2020, totaling \$11.14 billion in aggregate. Assumed Interest rate on future bond issuances vary from 5.5% to 6% over time and all debt is assumed to be issued with a level debt structure. Total aggregate debt service is estimated to be approximately \$24.1 billion.

# Historical and Estimated Future Gross Debt Service on General Fund Supported Debt

■ Estimated future debt service assumes issuance of authorized but unissued GO bonds and LRBs, and \$11.14 billion Water GO bond on 2014 ballot. <sup>(1)</sup> Gross debt service amounts do not reflect offsets to the amounts paid from the General Fund, including Build America Bond subsidies or truck weight fees transfers for transportation bonds. These offsets total approx. \$1.1 billion in 2012-13 and \$1.4 billion in 2013-14.



California State Treasurer's Office

(1) Excludes debt service for ERBs, Self-Liquidating GO bonds such as Vets GO Bonds, and GO Commercial Paper. Future issuance of authorized but unissued GO Bonds and lease revenue bonds total \$29.6 and \$5.1 billion, respectively, and issuance of Water GO Bonds total \$11.1 billion. The interest rate on variable rate bonds is assumed to be 4.25% inclusive of all fees, and the assumed interest rate on future bond issuances vary from 4.5% to 6% over time. Does not include offsets from weight fees and other revenues used to pay a portion of transportation related GO debt service or BAB subsidy payments. Debt service ratio is debt service as a percent of revenues.

# Measuring and Evaluating Debt Affordability and Capacity

## ■ Is there a “right” amount of debt?

- No. The State Treasurer’s Office believes the right amount of debt is a policy choice for the Legislature and Governor
- Very effective tool to fund long-term infrastructure projects and align repayment with long useful life of the project
- However, every General Fund dollar spent on debt service and any related on-going costs of projects is a dollar that is not available for education, health care and other programs. Debt service has grown more than most other State programs in recent years, but dollars appropriated for most other programs can be, and have been, cut to meet reduced revenues in recent years; not so for debt service. Once bonds are issued, the debt service must be paid and cannot be repealed

## ■ How do the Credit Rating Agencies view debt burden?

- One of the many factors that they use to determine state credit quality
- Key consideration is the impact on a state’s financial flexibility and whether, and to what extent, debt service crowds out other needs
- Depends not only on the amount of debt issued and authorized but unissued, but also on the state’s economic and revenue growth
- Key metrics are: i) debt service on “net tax supported debt” as a percent of either revenues or expenditures; ii) net tax supported debt as a percent of personal income; iii) net tax supported debt per capita; and iv) net tax supported debt as a percent of gross state domestic product



# Measuring and Evaluating Debt Affordability and Capacity

- How do the Credit Rating Agencies view the State's current bonded indebtedness overall?
  - Standard & Poor's: "High but conservatively structured" (1-31-13)
  - Moody's Investors Service: "Moderate debt burden" (10-12-12)
  - Fitch Ratings: "Moderate but above average debt burden" (10-12-12)





# Measuring and Evaluating Debt Affordability and Capacity

Debt Ratios of 10 Most Populous States based on Moody's calculation of "net tax supported debt" <sup>(1)</sup>

State	Debt as a % of 2011 Personal Income	Rank all states (high to low)	Debt service as a % of FY 2011 revenue	Rank all states (high to low)	Debt Per Capita	Rank all states (high to low)	2011 Debt as a % of 2010 State GDP	Rank all states (high to low)
New York	6.6%	6	11.3%	3	\$3,208	5	5.38%	6
<b>California</b>	<b>6.0%</b>	<b>8</b>	<b>8.5%</b>	<b>9</b>	<b>\$2,559</b>	<b>9</b>	<b>5.07%</b>	<b>9</b>
Illinois	6.0%	9	12.4%	2	\$2,564	8	5.06%	10
Georgia	3.1%	21	7.2%	15	\$1,099	26	2.68%	22
Florida	3.0%	23	7.9%	12	\$1,167	23	2.97%	19
Ohio	2.8%	25	4.4%	30	\$1,012	27	2.45%	25
Pennsylvania	2.8%	26	4.9%	26	\$1,134	25	2.54%	23
North Carolina	2.3%	32	3.6%	33	\$815	32	1.85%	34
Michigan	2.2%	33	2.7%	40	\$785	35	2.02%	32
Texas	1.5%	40	3.2%	35	\$588	39	1.25%	40
Median all States	2.8%		4.9%		\$1,117		2.40%	
Mean all States	3.4%		5.3%		\$1,408		2.96%	



(1) Figures as reported by Moody's Investor' Service in their May 2012 State Debt Medians Report. Moody's calculation of net tax-supported debt includes GO bonds (non self-liquidating), LRBs, ERBs, Prop 1A bonds, GO commercial paper notes, Federal Highway Grant Anticipation Bonds, enhanced tobacco securitization bonds, California judgment Trust Obligations, BAIFA state payment acceleration notes, and state building lease purchase bonds.

California State Treasurer's Office

# California's Credit Ratings

(as of February 25, 2013)

## Current Ratings of California State Debt

Type of Debt	Moody's Investors Service	Standard & Poor's	Fitch Ratings
General Obligation Bonds	A1	A	A-
Revenue Anticipation Notes	MIG-1	SP-1+	F1
CSCDA Proposition 1A Bonds <sup>(1)</sup>	A1	A	A-
State Public Works Board Lease Revenue Bonds <sup>(2)</sup>	A2	A-	BBB+
Economic Recovery Bonds	Aa3	A+	A+

## General Obligation Ratings of the 10 most Populous States (Ranked by Population)

State	Moody's Investors Service	Standard & Poor's	Fitch Ratings
<i>California</i>	<i>A1</i>	<i>A</i>	<i>A-</i>
Texas	Aaa	AA+	AAA
New York	Aa2	AA	AA
Florida	Aa1	AAA	AAA
Illinois	A2	A-	A
Pennsylvania	Aa2	AA	AA+
Ohio	Aa1	AA+	AA+
Michigan	Aa2	AA-	AA-
Georgia	Aaa	AAA	AAA
North Carolina	Aaa	AAA	AAA



California State Treasurer's Office

- (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.

# California's Credit Spreads



November  
2012  
Election



California State Treasurer's Office

(1) Monthly data shows the difference between 30-year California GO Municipal Market Data (MMD) index and 30-year AAA GO MMD index, published by Thomson Municipal Market Monitor (TM3).

# Roles of State Entities in GO Bond Financings

- State Legislature
  - Appropriates bond funds (biggest exception: K-12 bonds)
- Department of Finance
  - Surveys departments to determine and evaluate project funding needs
  - Requests State Treasurer's Office to issue a specified amount of bonds and/or commercial paper notes
  - Determines which bond acts and departments receive funding from bond and commercial paper note sales
- State Treasurer's Office
  - Prepares, markets and issues bonds and commercial paper notes to fund project needs
  - Determines amount of refunding bonds to be issued
  - Coordinates disclosure with DOF and SCO
  - Works with department to ensure bond funded projects meet federal tax law requirements
- Departments
  - Administer bond programs and approve disbursement of bond funds

