CALIFORNIA STATE TREASURER BILL LOCKYER

NEWS RELEASE

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Treasurer Lockyer Announces California Will Reenter General Obligation Bond Market with $4 Billion Deal

Nine-Month Absence Caused by Budget, Market Woes Ends March 23

SACRAMENTO – State Treasurer Bill Lockyer today announced California's nine-month absence from the general obligation (GO) bond market will end later this month with a $4 billion deal.

"It's great to get back in the game," said Lockyer. "It's been too long, and we think investors agree. The market is ready for a California comeback. We're excited to get the State's infrastructure financing program back on track and start generating good jobs again."

To mark the reentry, Lockyer said his office will extend the reach of its ad campaign – aimed at individual investors – beyond California. In addition to the San Francisco Bay Area and Los Angeles, the radio and print media ads will run in New York City. Individual investors will place their orders March 23 and 24. Institutional investors – such as mutual funds, money market funds and insurance companies – will order March 25. The final interest rates will be set March 25 following receipt of the institutional orders.

Lockyer said he's exploring the possibility of conducting a second large GO sale toward the end of April. That transaction could take advantage of a program created by the recently-enacted federal economic stimulus package. Under the "Build America Bonds" program, when a state issues taxable bonds, the federal government either provides the state a cash subsidy or gives investors a tax credit. The state gets to pick which option it prefers. If California uses the program, it likely would elect to take the cash, said Lockyer.

Turmoil in capital markets and the State's lengthy budget crisis have kept California out of the bond market since June 2008, when it issued $1.5 billion of GO bonds. When the State on Feb. 20 adopted a budget that closed a projected $40 billion deficit through fiscal 2009-10, Lockyer pledged to work as hard as he could to reenter the market as quickly as possible. Additionally, the bond market has shown signs of improvement since the start of the year.

Lockyer cautioned it's too early to tell how the March sale will affect a freeze on loans for infrastructure projects imposed last Dec. 17. The State Pooled Money Investment Board (PMIB) was forced to impose the freeze because declining revenues were slowing the State's cash flow to a trickle.

The PMIB administers the Pooled Money Investment Account (PMIA). The PMIA loans money to finance bond-funded infrastructure projects. It also provides loans to the State's general fund to help manage cash flow. The PMIA is reimbursed for infrastructure project loans when the State sells bonds.

Since the State could not sell bonds, it could not reimburse the PMIA for infrastructure loans. And since the infrastructure loan money could not be replenished, the PMIA had less and less money to provide the general fund. To preserve cash for the general fund and higher-priority services, such as education, the PMIB imposed the freeze.

Proceeds from the $4 billion sale will help get the infrastructure program back on its feet, said Lockyer. But he added how quickly and to what extent the loan freeze will be lifted remains to be determined. Lockyer noted the PMIA has about $6 billion in outstanding infrastructure loans that are unreimbursed. The PMIB will meet March 18 to discuss the freeze.

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