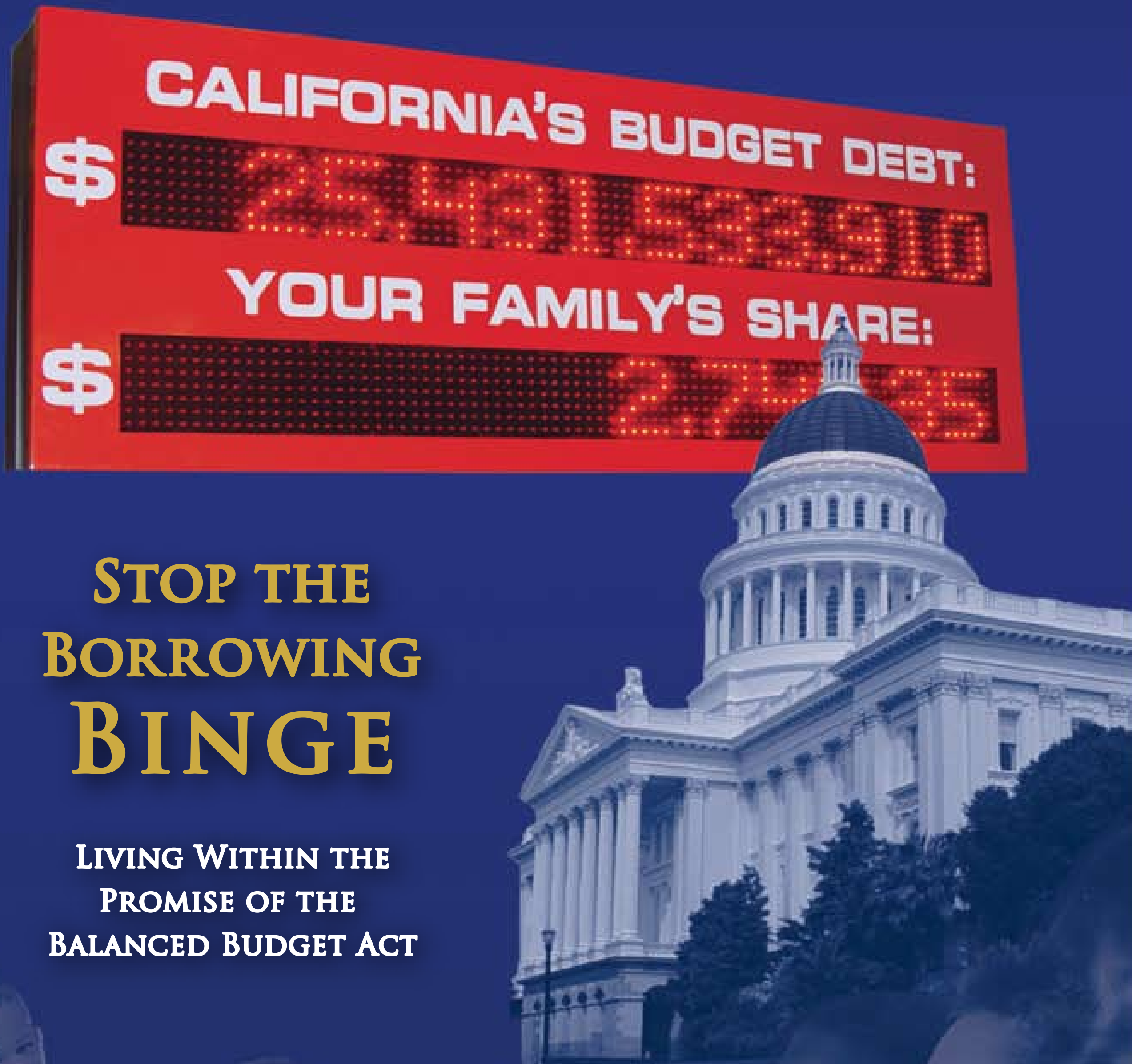

STOP THE BORROWING BINGE

LIVING WITHIN THE PROMISE OF THE BALANCED BUDGET ACT

THE STATE OF CALIFORNIA'S
DEBT AFFORDABILITY REPORT
2005

PHIL ANGELIDES
CALIFORNIA STATE TREASURER

Stop the Borrowing Binge

Living Within the Promise of the Balanced Budget Act

Debt Affordability Report 2005

Phil Angelides

Treasurer
State of California

The Honorable Arnold Schwarzenegger, Governor

The Honorable Don Perata, Senate President pro Tempore

The Honorable Fabian Núñez, Speaker of the Assembly

I am hereby transmitting to you California's statutorily required Debt Affordability Report for 2005. As it does every year, this report provides information to the Governor and lawmakers on the State's debt with the goal of ensuring that the State uses its bonding capacity to prudently invest in the future – in schools, transportation and other capital assets that will build California's long-term economic strength.

Two years ago, in the wake of the gubernatorial recall election and before then-Governor-elect Arnold Schwarzenegger presented his budget plans, I submitted the 2003 Debt Affordability Report with a sobering message: that the State had begun to travel down a dangerous road, borrowing to cover deficits, not to build for the future. Warning that California had approved deficit borrowing beyond what was fiscally prudent, I urged Governor-elect Schwarzenegger to send to the Legislature a budget-balancing package that reduced to the greatest extent possible the $10.6 billion in deficit bonds approved in the 2003-04 budget, and that in no event increased the amount of deficit borrowing.

Unfortunately for California and its people, Governor Schwarzenegger took the State in the other direction. He proposed even more deficit borrowing. He sought and won legislative and voter approval for $15 billion in deficit bonds. The Governor promised the voters that if they approved the Economic Recovery Bonds and the California Balanced Budget Act on the March 2004 ballot, the State would borrow once to cover its past debts, but then never again. The budget would be balanced, and the fiscal crisis would end.

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Voters, in good faith, relied on those promises, but they have not been kept; the Schwarzenegger Administration has used loopholes in the Balanced Budget Act that have made it essentially a dead letter. Today, California's budget debt is bigger than ever, and the budget is still miles away from being balanced.

The State's debt for deficits, which was $18 billion when Governor Schwarzenegger took office, will reach $25.7 billion by the end of this fiscal year, more than $2,750 for each California family of four. By the 2007- 08 fiscal year, the State will spend around $3.5 billion in that year alone repaying deficit borrowing, more than it spends on the entire University of California system.

The last two budgets proposed by the Governor and enacted by the Legislature have spent more than the State has taken in – this year's budget spends $1.06 for every one dollar in revenue – and the State faces a $6 billion budget deficit in the coming year.

Borrowing to make up for unbalanced budgets has taken up debt capacity that would be better used to invest in classrooms, laboratories, roads, and water. The State's credit ratings remain the lowest in the nation – despite our strong and diverse economy – because the credit-rating agencies are concerned over persistent structural deficits and obstacles to the adoption of a balanced budget. Those low credit ratings impose an interest penalty of about $40 million for each $1 billion the State borrows, a penalty that would amount to an estimated $1 billion on its planned bond issuances if the State does not end its budget crisis and raise its credit ratings.

Every day that California fails to balance its budget and end deficit spending is a day taken away from thinking about and planning for how to make it possible for Californians to compete and succeed in the global economy of the 21st century. California still finds itself focused on, and arguing about, how to pay the debts of the past, not about how to better educate our children, build better communities, and strengthen our economy.

The time to act is now, when the economy is strong. California risks even greater deficits than those currently projected should an economic downturn present itself in the near future.

To head off that fate, this report contains a simple recommendation. It calls on Governor Schwarzenegger to live within the promise he made to voters when they approved the Balanced Budget Act by submitting a balanced budget for the 2006-07 fiscal year, without any further borrowing. This commitment would include not issuing any of the remaining $4 billion of Economic Recovery Bonds, which were intended by voters to cover past debts, not future deficits. Similarly, the Legislature must pass a balanced budget for 2006-07 that does not authorize or rely upon further deficit borrowing.

To balance its budget, California does not need gimmicks, incomprehensible formulas, and self-locking budget straitjackets. It needs only real fiscal discipline, and leaders to propose and pass balanced budgets, as the constitution intends and Governors and Legislatures past have enacted throughout our history.

Thank you for your consideration of this report and the recommendations contained herein.

Sincerely,

Phil Angelides
State Treasurer

Stop the Borrowing Binge

Living Within the Promise of the Balanced Budget Act

Debt Affordability Report 2005

Table of Contents

Chapter A: Stop the Borrowing Binge
Living Within the Promise of the Balanced Budget Act

Chapter B: Debt Affordability

Stop the Borrowing Binge

Living Within the Promise of the Balanced Budget Act

Debt Affordability Report 2005

Chapter A:

Stop the Borrowing Binge:

Living Within the Promise of the Balanced Budget Act

Introduction

In normal times, the State Treasurer's required annual report on debt affordability dwells on the technical issues of debt financing – the state of the bond markets, the State's credit ratings, and the ratios that measure California's capacity to borrow so that it can invest in the critical projects, such as schools and transportation, that underpin the strength of its economy.

Unfortunately, these are not normal times for California. Four years after the end of the last recession and more than five years after the peak of the dot-com stock market boom, the State continues to spend more than it takes in and faces a projected deficit next year of $6 billion. At a point in the business cycle when the State normally enjoys a healthy budget surplus, California continues to borrow to make up the difference between its tax revenues and its spending. Since 2003, when the State began borrowing in the financial markets to cover budget deficits, it has piled up more than $25 billion in deficit-related debt, an amount that has grown by nearly $8 billion since Governor Arnold Schwarzenegger took office. That debt amounts to about $2,750 for each family of four in California – $2,750 that could instead be spent on critical investments in schooling, public safety, and health care.

Every hour the debt grows by approximately $110,000 – enough to pay the annual fees for 141 community college students in California. Every day the State's budget debt grows by more than $2.6 million; over a year this is enough money to build 86 elementary schools.

Two years ago, this office warned, in the 2003 edition of the Debt Affordability Report, that California's unbalanced budget and massive deficit borrowing made it impossible to offer meaningful estimates of the State's long-term capacity to issue bonds for public investments in schools and infrastructure. The State, that report noted, was at a fiscal crossroads and needed to take the responsible path to reduce the deficit borrowing that had already been authorized and commit itself to a truly balanced budget without additional borrowing.

As this report spells out, the Schwarzenegger Administration has taken California in the wrong fiscal direction since that warning. The deficit borrowing that the Governor has proposed and that the Legislature has approved to make up for unbalanced budgets has taken up debt capacity that would be better used to invest in capital projects that build California's economic strength. Continuing deficits leave the State unable to make a long-term capital investment plan and they raise the cost of borrowing to taxpayers. Every day California fails to balance its budget and end deficit borrowing is a day taken away from thinking and planning for how to make it possible for Californians to compete and succeed in the global economy of the 21st century.

Current Level of Deficit Borrowing is Unprecedented

California's recent borrowing to cover budget deficits is unprecedented. Over the last three fiscal years, the State accumulated $25.5 billion in debt to close ongoing budget gaps, as shown in Figure A-1 below. The State went to the financial markets for $16 billion, borrowed $3.9 billion from other levels of government, and tapped special funds for $5.2 billion.

Figure A-1

California's Budget Debt

Debt Amounts (in Billions)			
Bonds	**2002-03 and Prior**	**2003-04**	**2004-05**
Deficit Financing Bonds	$ 0.000	$ 0.000	$ 10.896
Tobacco Securitization Bonds	2.708	2.354	0.000
Annual Subtotal	**2.708**	**2.354**	**10.896**
Borrowing from Other Levels of Government			
Local Government VLF Gap Loan	0.000	1.186	0.000
Local Schools: Proposition 98 "Settle-Up" Loan	0.000	0.000	1.300
Local Non-Education Mandates	1.000	0.200	0.200
Annual Subtotal	**1.000**	**1.386**	**1.500**
Borrowing From Special Funds			
Transportation Investment Fund (Prop. 42-Related)	0.000	0.862	1.207
Traffic Congestion Relief Fund	1.383	0.000	0.000
Other Special Funds	0.771	0.547	0.468
Annual Subtotal	**2.154**	**1.409**	**1.675**
TOTAL DEBT	**5.862**	**5.149**	**14.071**
Interest and Amortization on Internal Borrowing			
Interest on the Transportation Loans	0.015	0.024	0.037
Interest on Mandates	0.011	0.013	0.015
Interest on Special Funds	0.004	0.007	0.010
Annual Subtotal	**0.030**	**0.044**	**0.062**
Interest and Amortization on External Borrowing			
Interest	0.000	0.000	0.240
Annual Subtotal	**0.000**	**0.000**	**0.240**
Annual Total	**5.892**	**5.193**	**14.133**
Accumulated Debt through June 30, 2005			**25.458**

SOURCE: Legislative Analyst's Office (LAO) and the Public Finance Division of the State Treasurer's Office

The State has resorted to borrowing in past fiscal crises, but never of this scale and duration. California used Revenue Anticipation Warrants to borrow across fiscal years both in the early 1980s and again in the early 1990s, but these borrowings represented a smaller share of the State budget and were short-term obligations issued to provide for the cash flow needs of the State while solutions to balance the budget took effect.

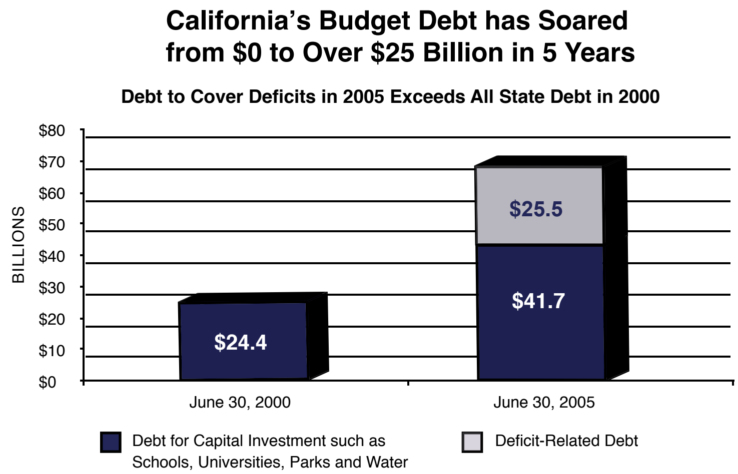
By contrast, the State's current budget debt is equivalent to 30.8 percent of estimated General Fund expenditures in the 2004-05 fiscal year. The State's borrowing in the financial markets carries maturities of 17 to 40 years, and repayment of obligations owed to special funds and schools would be stretched out over 15 years under the terms of Proposition 76 on the November special election ballot.

Five years ago, California had no deficit-related debt, and a moderate total debt of $24.4 billion for capital projects. Today, as shown in Figure A-2 below, the State's deficit-related debt alone exceeds the total debt of 2000. Never before has California dug itself so deep a fiscal hole.

Budgets Continue to Rely on Borrowing

In March 2004, California voters approved two budget measures placed on the ballot by Governor Schwarzenegger and the Legislature. The Economic Recovery Bond Act (Proposition 57) authorized issuance of $15 billion in bonds for the purpose of financing the budget deficits accumulated in the wake of the stock market downturn and the 2001 recession. The California Balanced Budget Act (Proposition 58) amended the state constitution to permit the one-time sale of Economic Recovery Bonds (ERBs) and prevent future borrowing to cover budget deficits.

Figure A-2



The message to voters from Governor Schwarzenegger and other proponents of these measures was unequivocal. The Governor promised the voters that if they approved the Economic Recovery Bonds and the California Balanced Budget Act, the State would borrow once and then never again. "The California Balanced Budget Act," Governor Schwarzenegger wrote in the voter ballot pamphlet, "PROHIBITS BORROWING TO PAY DEFICITS ever again and requires enactment of a BALANCED BUDGET." "Governor Schwarzenegger needs both Propositions 57 and 58 to pass. It will give him the tools necessary to STOP BORROWING, STOP OVERSPENDING, and PUT OUR FINANCES BACK IN ORDER." (Emphasis in original.) "We will refinance our debt, pay it off as quickly as possible and then tear up the credit cards to make sure it never happens again," Governor Schwarzenegger and Controller Steve Westly, co-chairs of the campaign for the measures, wrote in an op-ed in the *Sacramento Bee*.

Voters relied in good faith on those promises, but they have not been kept. The two budgets Governor Schwarzenegger has proposed and signed since the passage of the measures have contained significant amounts of new debt. Even though the California economy has grown at or above the overall national rate since the end of the last recession, the State continues to borrow to close deficits.

The 2004-05 budget relied on a total of $6.8 billion in borrowing and deferrals. Among other provisions, it used $2.7 billion in Economic Recovery Bonds, the bonds that were supposed to be issued only to cover past debts, and authorized issuance of $929 billion in pension obligation bonds. Although the Balanced Budget Act explicitly exempted ERBs from its prohibition on new deficit borrowing, the pension obligation bonds do not fall under the Balanced Budget Act's enumerated exceptions. Proposed for a term of 20 years, they are not a short-term borrowing and would not finance debt accumulated prior to June 30, 2004.

The budget for the current 2005-06 fiscal year also employs borrowing to cover a $5 billion-plus gap between authorized spending ($90.026 billion) and estimated tax revenues ($84.471 billion). It assumes $525 million in revenue to the General Fund from a refinancing of the Tobacco Securitization Bonds 2003 Series B, a refinancing that will increase the risks to the General Fund. It also counts on paying a $428 million settlement for damages in the 1986 floods over ten years with interest, and it continues to assume the sale of the pension obligation bonds authorized in the prior-year budget.

Even with the early repayment of the $1.186 billion Vehicle License Fee gap loan to local governments, the current budget, if carried out as enacted, would bring the State's total of deficit-related debt to an estimated $25.7 billion by the end of the fiscal year, nearly $8 billion more than when the Governor took office.

The State's Structural Deficit Persists

The State's continuing reliance on deficit borrowing reflects the failure to close what budget experts call a "structural deficit."

Budget deficits come in two flavors, cyclical and structural. Sometimes the State budget falls out of balance because of an economic downturn. That is a cyclical deficit. When the economy grows at a lackluster pace, or shrinks in a recession, the State's revenue collection from personal income taxes, corporation income taxes, and sales taxes slows, too. A slowing or shrinking economy also raises the demand for, and cost of, State programs such as Medi-Cal and TANF, as workers lose jobs and fall back on State safety-net programs. This combination of revenue loss and higher costs can lead to large budget gaps, such as California experienced early in each of the last three decades at the bottom of the business cycle.

By contrast, a structural budget deficit is a gap between spending and revenue that exists even in years of normal economic growth. It is built into the structure of the State's fiscal policy, and does not go away as the economy grows. When the State has a structural deficit, the amount of revenue produced by its tax system does not reach the baseline cost of services that state government is supplying.

For the last several years California has had a persistent structural deficit. Although tax revenues have grown consistently over the four years since the trough of the 2001 recession and even though the State has restrained spending growth, including suspending the Proposition 98 school funding guarantee in 2004-05, California faces annual budget deficits for the foreseeable future. The Legislative Analyst's Office estimates that the Governor and Legislature will again face a deficit of $6 billion when the Governor submits the 2006-07 budget in January. If the economy were to slow significantly in 2006 and 2007, as some forecasters expect, the deficit would swell.

State's Low Credit Ratings are Driven by Its Failure to End Deficit Spending and Borrowing

Although the three rating agencies have raised the State's credit ratings, California's current credit ratings remain the lowest among the states. Fitch Ratings, Moody's Investors Service, and Standard & Poor's, respectively, currently rate the State as A, A2, and A.

These low ratings are not a reflection of underlying economic weakness. California has a strong, diversified economy, which has grown at or above the national rate since 2000. A center of innovation and entrepreneurship, it is home to more of the top 50 fastest-growing private companies than Texas, Florida, New York, and Illinois combined, according to the annual ranking by INC magazine.

Instead of economics, the rating agencies cite the State's failure to balance its budget and eliminate its structural deficit as key reasons for their low ratings of the State's debt. "Also factored into the rating, however, is the continued structural deficit between ongoing revenues and expenditures," Standard & Poor's wrote last year. "The structural imbalance situation still represents a significant ongoing fiscal challenge for California, and is a major reason for the still low bond rating relative to other states," Moody's Investors Service noted in July.

Borrowing for Deficits is Costly and Crowds Out Investments for the Future

The combination of the State's large deficit borrowing and the low credit ratings that result from it imposes significant costs, both current and future, on Californians. These costs eat up tax dollars that would otherwise be available for schools, colleges, health care, and public safety.

Repaying the principal and interest on the deficit debt accumulated over the last four years will be a drag on California's finances for years to come. As shown in Figure A-3 below, total scheduled debt service payments on the three deficit borrowing bonds sold by the State will amount to an estimated $30.88 billion over the next 40 years. When internal borrowing is added, taxpayers will foot a total bill of over $39 billion to repay the State's deficit borrowing.

Although debt service on the State's external deficit bond borrowings are nominally not a General Fund item, the costs affect taxpayers in the same way as if it were. The ERBs are supported by a dedicated portion of the sales tax; in the absence of the borrowing, these revenues would be available to support General Fund services. The tobacco bonds are supported by annual payments to the State from the tobacco settlement, but as in the case of the ERBs, these funds would have been available for General Fund uses had the State not securitized them.

Figure A-3

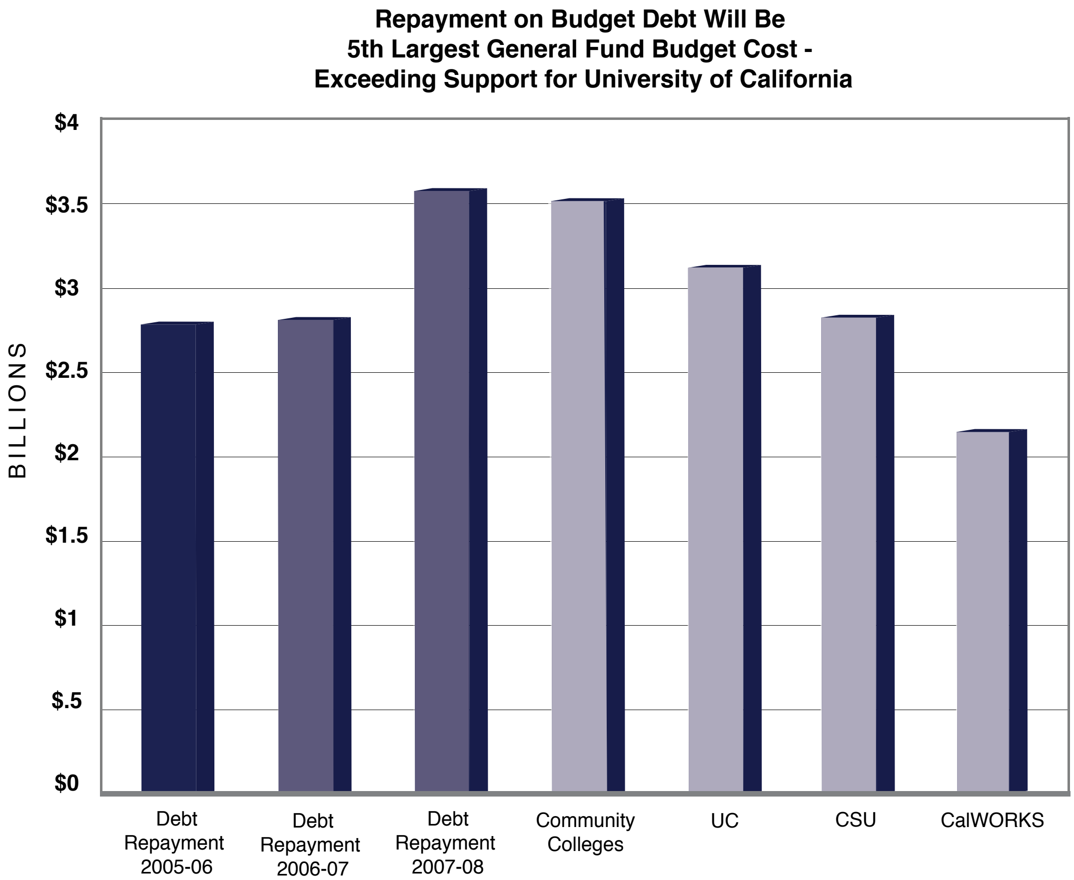
Debt Service on Deficit Borrowing

	(in Billions)
Tobacco Securitization Bonds 2003 Series A	$ 8.82
Tobacco Securitization Bonds 2005 Series A	7.61
Economic Recovery Bonds - Fixed Rate	9.15
Economic Recovery Bonds - Variable Rate	5.30
Total:	**$ 30.88**

Stop the borrowing binge

In the years ahead, repaying the debt incurred to paper over California's ongoing deficits will be a major item in the budget. As shown in Figure A-4 below, under current law, payments on the State's deficit borrowing will exceed $3.5 billion in the 2007-08 fiscal year. It will be equivalent to the 5th largest General Fund budget cost, exceeding projected costs for community colleges, the University of California, or the California State University system.

Figure A-4



(Estimated 2007-08 General Fund Expenditures)

The State's fiscal imbalance also raises the cost of California's ordinary borrowing for capital projects such as schools and water systems. The low credit ratings that flow from the State's failure to balance its budget result in higher interest rates when California goes to the market to sell bonds. For the State's most recent general obligation bond sale in June 2005, California paid interest rates that will cost the State significantly more than if the State had an AAA credit rating. At the interest rates prevailing in June, this penalty for the State's low credit rating amounts to about $40 million per each $1 billion borrowed over the 30-year life of a bond issue. The State has an inventory of $30 billion of authorized but unissued bonds. If the State fails to end its budget crisis and raise its credit ratings, it will impose an interest rate penalty on its future borrowing that could cost taxpayers more than $1 billion.

Finally, the State's deficit borrowing also impinges on California's capacity to issue bonds to build capital projects to educate our children, move people and goods, supply water to cities and farms, and protect the environment. Under its current budget policies, the State cannot meet its existing obligations, let alone take on additional long-term projects. As long as California runs a structural budget deficit and depends on borrowing to close budget gaps, it makes it more difficult to prudently take on long-term borrowing for the investments in education, infrastructure, and environment vital to the future prosperity and quality of life of the state and its people.

Balanced Budget Act Did Not Prevent Deficit Borrowing and Unbalanced Budgets

The California Balanced Budget Act approved by voters in March 2004 was supposed to end deficit borrowing in California. "The California Balanced Budget Act," Governor Schwarzenegger wrote in favor of the measure in the voter ballot pamphlet, "WILL require a BALANCED BUDGET; WILL require that SPENDING NOT EXCEED INCOME each fiscal year…" (Emphasis in original.)

In practice, however, these constitutional provisions governing the annual budget have not prevented the Governor from proposing, and the Legislature and Governor from enacting, budgets that rely on borrowing.

Section 12 (a) of Article IV of the state constitution requires the Governor to submit a budget to the Legislature by January 10 each year. It provides that the Governor's budget itemize "recommended state expenditures and estimated state revenues…. If recommended expenditures exceed estimated revenues, the Governor shall recommend the sources from which the additional revenues should be provided." These provisions are commonly assumed to mandate that the Governor propose a "balanced" budget. However, because the constitution does not define revenue, the requirement that the Governor identify the revenue to match his spending requests does not always yield a balanced budget.

In plain language, a budget is balanced when income equals or exceeds spending. A state budget is balanced when revenues (taxes, fees, interest) equal or exceed planned expenditures. Recent gubernatorial budgets have not met this test. Governors Gray Davis and Schwarzenegger have counted the proceeds of proposed borrowing, both external and internal, as revenue. This is equivalent to a family's declaring its household budget balanced for the year even though it had added $10,000 of ordinary living expenses to its outstanding credit card balance.

Provisions of the California Balanced Budget Act, now incorporated as Section 12 (f) of Article IV of the constitution, appear to require the budget passed by the Legislature and signed by the Governor to be balanced: "The Legislature may not send to the Governor for consideration, nor may the Governor sign into law, a budget bill that would appropriate from the General Fund, for that fiscal year, a total amount that, when combined with all appropriations from the General Fund for that fiscal year made as of the date of the budget bill's passage, and the amount of any General Fund moneys transferred to the Budget Stabilization Account for that fiscal year pursuant to Section 20 of Article XVI, exceeds the total of estimated General Fund revenues for that fiscal year."

But this requirement again hinges on the definition of revenue. The two budgets submitted by Governor Schwarzenegger and enacted by the Legislature since voters placed this language into the constitution have counted proceeds of borrowing as revenue toward closing the State's deficit. As Daniel Mitchell, an economist and professor of public policy at UCLA, wrote in a review of the California budget process, "Borrowing does not close a gap. It is (part of) the gap."

The California Balanced Budget Act was also supposed to prevent deficit borrowing. "Proposition 58 prohibits borrowing for future deficits," the Governor told voters in the March 2004 ballot pamphlet. However, the actual language of the constitutional provision did not live up to its billing. It does not apply to borrowing from either special funds or other levels of government. Nor does it bar external long-term deficit borrowing. After the issuance of the ERBs, "the State may not obtain moneys to fund a year-end state budget deficit, as may be defined by statute," the constitution says. Instead of keeping faith with the promises to voters that the Balanced Budget Act would end borrowing, Governor Schwarzenegger has interpreted this provision to allow long-term borrowing to make up for a deficit in a state budget so long as the deficit borrowing, such as pension obligation bonds, is proposed before a fiscal year end, rather than after. This reading of the Balanced Budget Act essentially makes it a dead letter, allowing the State to continue the kind of deficit borrowing that voters had every reason to believe they were stopping.

California Needs to Balance Its Budget and Restore Its Credit Rating

Neither a growing economy nor enacted budget reforms have balanced California's budget. The State's failure to restore fiscal stability not only diverts tax dollars to pay off debts – money that would be better spent on services and infrastructure to serve the people of California – but it also distracts the attention of leaders and citizens from preparing California to meet the challenges of the future.

The time has come for California to end deficit borrowing, eliminate the structural deficit, and restore its credit ratings.

The Governor Must Submit, and Legislature Must Pass, a Balanced Budget Without Borrowing

Restoring California to fiscal responsibility does not require gimmicks, incomprehensible formulas, and self-locking straitjackets. It requires only that the Governor propose and the Legislature enact a truly balanced budget. It is the clear intent of the constitution that the State budget be balanced each year and that the State not borrow to cover its normal operating expenses. Governors and Legislatures have operated within those bounds of fiscal prudence throughout most of California's history, and they could – and should – do so again.

Therefore this report makes a simple recommendation: It calls on Governor Schwarzenegger to live within the promise he made to voters when they approved the Balanced Budget Act by submitting a balanced budget for the 2006-07 fiscal year, without any further borrowing. This commitment would include not issuing any of the remaining $4 billion of Economic Recovery Bonds, which were intended by voters to cover past debts, not future deficits. Similarly, the Legislature must pass a balanced budget for 2006-07 that does not authorize or rely upon further deficit borrowing.

California Must Act While the Economy is Growing

California does not have the luxury of time on its side. Running large deficits so far into an economic recovery is unprecedented and risky. Even after the wrenching recession and economic restructuring that struck California in the early 1990s, the worst economic downturn since the Great Depression, the State was able to rebalance its budget within four years of the end of the recession. Yet in this economic cycle, the State's budget is still unbalanced four years into an economic upswing. The average length of economic expansions in the United States since World War II is less than five years. Having failed to balance its budget during the current recovery, California now confronts the risk that an economic slowdown over the next several years could compound its fiscal woes.

The rising price of oil is only one of a host of risk factors in the economy. The Federal Reserve continues to raise interest rates, which could take some of the steam out of two key drivers of recent growth: business investment and real estate. The trade deficit is high, and the federal budget deficit remains out of control. The combination of these imbalances with the low rate of personal saving makes the United States heavily and perhaps unsustainably dependent on foreign central banks, especially Japan and China, to buy U.S. Treasury bonds.

In many markets around the country, including in California, increases in house prices have outstripped increases in household incomes and rents, leading some economists to suggest we are in a housing bubble. The UCLA Anderson Forecast issued in September suggests that a flattening of the real estate market will slow the economy as real estate-related jobs disappear and households, no longer able to refinance houses to tap growing equity, pull back on spending.

A national economic slowdown that reduced the growth of California personal income would make balancing the State budget significantly more difficult, piling a cyclical element on top of the structural deficit. The budget for the current fiscal year is based on a Department of Finance forecast that personal income in California will grow by 5.8 percent in 2006. The Legislative Analyst estimates that if personal income were to grow by 2 percentage points less in 2005-06, General Fund revenues would be reduced by 4.1 percent, or about $3.2 billion, roughly the amount the State spends on community colleges. This kind of slowdown could swell next year's deficit to $9 billion. If California fails to act now to balance its budget and end deficit borrowing while the economy is still strong, the State will find itself in a much deeper hole when the next downturn inevitably arrives.

Conclusion

Over the last two years, the combination of a recovering economy and huge deficit borrowing has alleviated the budgetary cash squeeze California once faced. But with respect to the State's larger budget crisis, the last two years have been a wasted opportunity. Governor Schwarzenegger and the Legislature have not balanced the budget, borrowing continues, and the structural deficit looms into the future. California still finds itself focused on, and arguing about, how to pay the debts of the past, not about how to better compete in the global marketplace, better educate our children, and build better communities. We cannot afford to wait before putting the State back on the path to fiscal stability. Today more than ever, California needs to end its deficit borrowing and balance the budget.

Stop the Borrowing Binge

Living Within the Promise of the Balanced Budget Act

Debt Affordability Report 2005

CHAPTER B:

Debt Affordability

Introduction

The Treasurer must submit an annual debt affordability report to the Governor and Legislature in accordance with the requirement of Government Code Section 12330. The law requires the Treasurer to provide the following information:

- A listing of authorized by unissued debt that the Treasurer intends to sell during the current yearand the budget year and the projected increase in debt service as a result of those sales.
- A description of the market state bonds.
- An analysis of the ratings for state bonds.
- A listing of outstanding debt supported by the General Fund and schedule of debt services requirments for this debt.
- A listing of authorized but unissued debt that would be supported by the General Fund.
- Identification of pertinent debt ratios, such as debt service to the General Fund revenues, debt to personal income, debt to estimated full-value of property, and debt per capita.
- A comparison of these debt ratios with the comparable debt ratios for the 10 most populous states.

The rating agencies and the investor community evaluate the State's debt position based on "net tax-supported bonds." Net tax-supported bonds are those that must be repaid by the General Fund. Net tax-supported bonds *exclude:* 1) commercial paper and short-term obligations, such as revenue anticipation notes and warrants; 2) "self-supporting" state bonds, which are repaid from specific revenues outside the General Fund; and 3) bonds of federal, state and local governments and their agencies that are not obligations of the State's General Fund. It also excludes all types of "conduit" bonds, such as those issued by financing authorities on behalf of other governmental or private entities whose obligations secure the bonds.

This report frequently uses the words "bonds" and "debt" interchangeably, even when the underlying obligation behind the bonds does not constitute debt under California's constitution. This conforms to the market convention for the general use of the terms "debt" and "debt service" as applied to a broad variety of instruments in the municipal market, regardless of their precise legal status.

The Market for State Bonds

Municipal Bond Market

The State of California's net tax-supported bonds are a subset of the United States municipal bond market. Investors in this overall market include insurance companies, mutual funds, hedge and investment funds, investment banks, trust departments, corporations, individual in vestors, and money market funds. Each of these buying groups has its own preference for the structure and maturities of the bonds it purchases. As one of the largest issuers of municipal bonds in the country, the State is able to draw significant attention from all of these buyers.

The borrowing cost for each issuer of municipal bonds is determined by the strength of the overall market for municipal bonds and investors' view of, and demand for, each issuer's credit. In determining what rates of return they require on their investments, investors consider an issuer's ability and willingness to repay its obligations as compared to the likelihood of full repayment by other possible issuers and investments. Investors have historically viewed California's bonds as high-quality investments because of the State's large economy, its taxing authority, and its solid bond payment history.

Traditionally, the large numbers of investors residing in California and the State's progressive income tax system have created increased demand for the State's General Fund-backed tax-exempt bonds. However, during the period from 2000 through 2004, investor demand for California debt weakened as the State's credit deteriorated and investors grew concerned over the magnitude of the State's budget shortfalls. In 2003, the State's credit was downgraded by the three major rating agencies to the lowest level of any state. The State's borrowing costs rose accordingly. Since then, all three credit-rating agencies have upgraded the State's ratings, citing the State's improved liquidity, an increase in General Fund revenues, the strengthening statewide economy, and an improved financial outlook for 2006 and beyond, while showing concern with State budgets that continue to have structural deficits. However, the State's credit ratings still remain the lowest among the states.

Cost of California's Fixed Rate Debt

Between late January 2000 and late September 2002 the State's cost of borrowing fell to historically low levels, primarily due to declining interest rates across the entire fixed-income market. During this period, the State's absolute 20-year borrowing cost fell from a five-year high of 6.00 percent on January 20, 2000 to a low of 4.50 percent on September 24, 2002, a decrease of 1.50 percentage points. Over the same period, the State's borrowing costs relative to the national 20-year AAA-rated average varied greatly, as the State's credit was upgraded and then downgraded and as the market's perception shifted. In September 2000, when both Moody's Investors Service and Standard & Poor's upgraded the State's credit ratings, the State's relative borrowing cost reached a low of 0.16 percentage points below the national AAA-rated average. Subsequently, as the State's credit was downgraded, the relative borrowing cost steadily rose to a high of 0.26 percentage points above the AAA-rated average in May 2001, and then fluctuated between 0.03 and 0.26 percentage points above the AAA-rated average through September 2002.

Between fall 2002 and summer 2003, the State's cost of borrowing rose as the market's perception of the State's deteriorating credit and budget problems began to put additional pressure on the demand for the State's bonds. The State's borrowing costs relative to the AAA-rated index rose from 0.03 percentage points above the AAA-rated average on September 24, 2002 to an all-time high of 0.74 percentage points above the average on July 25, 2003 during the State's prolonged budget deliberations and the gubernatorial recall election. In absolute terms, the State's borrowing costs increased from a low of 4.50 percent as of September 24, 2002, to a near-term high of 5.56 percent as of July 31, 2003, an increase of 1.06 percentage points. This increase resulted from both a general increase in market rates and the State's deteriorating credit.

Between the summers of 2003 and 2004, the State's borrowing cost compared to the AAA-rated average was volatile and closely tied to the economic and political factors facing the State. After hitting a high of 0.74 percentage points above the AAA-average on July 25, 2003, the State's relative cost of borrowing fell to 0.38 percentage points above the AAA-average on September 4, 2003, when a State budget was belatedly passed. However, directly following this improvement, political uncertainty surrounding the State's gubernatorial recall and credit-rating downgrades by Moody's Investors Service, Standard & Poor's, and Fitch Ratings caused the State's relative cost of borrowing to rise to a high of 0.67 percentage points above the AAA-rated average on December 18, 2003. Subsequently, signs of a recovering economy, the easing of the State's liquidity pressures, and improvements in revenues and financial outlook led to credit-rating upgrades from all three credit-rating agencies and an improvement in the market for the State's bonds. Since June 2004, the trading level of the State's bonds compared to the AAA-rated average has been relatively stable, ranging from 0.19 to 0.29 percentage points above the average. As of August 4, 2005, the State's 20-year borrowing cost was 4.39 percent or 0.22 percentage points above the AAA-rated average.

Although the State's borrowing cost experienced an improvement of more than 0.50 percentage points relative to the AAA-rated average since July 25, 2003, the State's relative borrowing costs are still almost 0.40 percentage points above the levels achieved in September 2000. This gap can be attributed primarily to the State's low credit ratings (see "The State's Credit Ratings"), which reflect the persistent imbalance between State revenues and expenditures.

The State's Credit Ratings

Bond ratings provided by a credit-rating agency are an independent assessment of the relative credit risk associated with purchasing and holding a particular bond through its scheduled term of repayment. Bond ratings serve as independent opinions of a borrower's financial strength and ability to repay its debt on a timely basis. Bond ratings are one of the most important indicators of creditworthiness readily available to the investment community and directly influence the borrowing rates paid by the State.

After deteriorating for several consecutive years, the State's credit ratings have shown recent improvement. Fitch Ratings, Moody's Investors Service, and Standard & Poor's currently rate the State as A, A2, and A, respectively. These credit ratings reflect the State's improving economy and revenues as offset by the ongoing structural imbalance of the State budget. This imbalance of revenues and expenditures has not been addressed in recent budgets and results in ongoing structural deficits. The State's current credit ratings remain the lowest of all states rated by the rating agencies. A summary of the rating agencies' opinions of the State's credit strengths and weaknesses is presented in Figure B-1.

Figure B-1

State of California General Obligation
Credit Ratings and Agency Commentary

	Fitch Ratings	Moody's Investors Service	Standard and Poor's
As of July 1, 2002	AA	A1	A+
As of July 1, 2003	A	A2	A
As of July 1, 2004	BBB	A3	BBB
As of July 1, 2005	A-	A3	A
As of October 1, 2005	A	A2	A
Ratings Strengths	• State's improved economic and revenue performance • Some progress in addressing budget's structural imbalance	• Trend of recovery and revenues • Low likelihood of any serious liquidity strain	• Easing of immediate liquidity pressures • Recent economic improvement • A rising, but still moderate, debt burden
Ratings Weaknesses/Risks	• Budget funding gap remains large at 7% of revenues • Uncertainty surrounding State's ability to address future budget gaps	• Ongoing fiscal challenges such as budget's structural imbalance • Heavy reliance on borrowing to fund operating defecits • Above average and rapidly growing long-term debt burden	• Continued structural deficit between revenues and expenditures • Future fiscal pressure from promised increases in structural expenditures • Structural impediments, such as mandatory funding requirements for schools, and a 2/3 legislative vote requirement for state budget passage

General Fund Debt

Bonds Outstanding and Bonds Authorized But Unissued

As of July 1, 2005, the State had a total of $34.644 billion in voter-authorized general obligation bonds outstanding (this number excludes the $10.9 billion of Economic Recovery Bonds sold to date) and a total of $30.438 billion in authorized but unissued bonds. In addition, the State has legislatively authorized General Fund-supported lease revenue bonds in the amount of $7.841 billion outstanding and $3.320 billion authorized but unissued. A detailed list of the State's outstanding general obligation and General Fund-supported lease revenue bonds and their debt service requirements can be found in Appendix 1.

Intended Issuances of Net Tax-Supported Bonds

Intended issuances are based on prior spending patterns and departmental expenditure projections and are subject to change. Intended issuances of General Fund net tax-supported bonds for the next two fiscal years are shown in Figure B-2. Net tax-supported bonds are those that must be repaid by the General Fund. Net tax-supported bonds *exclude:* 1) commercial paper and short-term obligations, such as revenue anticipation notes and warrants; 2) "self-supporting" state bonds, which are repaid from specific revenues outside the General Fund; and 3) bonds of federal, state and local governments and their agencies that are not obligations of the State's General Fund. It also excludes all types of "conduit" bonds, such as those issued by financing authorities on behalf of other governmental or private entities whose obligations secure the bonds.

The State's intended issuances of net tax-supported bonds listed in Figure B-2 include only currently authorized but unissued bonds. The intended issuances may increase should new bond programs be approved.

Figure B-2

Intended Issuances (in Millions)

	2005-2006	2006-2007
General Obligation	$5,500	$5,000
Lease Revenue	438	614
Pension Obligation Bonds	533	n/a
Total General Fund Supported Bonds	**$6,471**	**$5,614**

The State's combined total intended issuance of $12.085 billion of General Fund net-tax supported bonds during fiscal years 2005-06 and 2006-07 is expected to increase General Fund-supported debt service by $43.245 million in fiscal year 2005-06 and $526.726 million in fiscal year 2006-07. A detailed schedule of the projected annual payments on these obligations can be found in Appendix 2.

Debt Ratios

Measuring California's debt level through the use of debt ratios provides a convenient way to compare California's circumstances to those of other borrowers. The most common debt ratios applied to state issuers are: (1) debt service as a percentage of general fund revenues, (2) debt as a percentage of personal income, and (3) debt per capita.

Debt Service as a Percentage of General Fund Revenues: Because debt service is considered a fixed part of a state's budget, credit analysts compare a state's general fund-supported debt service to its general fund revenues to measure the state's fiscal flexibility. California's ratio of debt service to General Fund revenues was 4.44 percent for fiscal year 2004-05, based on $3.790 billion in debt service payments versus $85.447 billion in General Fund revenues. This ratio is projected to be 4.65 percent for fiscal year 2005-06, based on $3.931 billion in debt service payments versus $84.471 billion in General Fund revenues as projected by the Department of Finance.

This projected ratio reflects debt service from only a portion of the bond sales listed in Figure B-2 and does not include the Economic Recovery Bonds, for which debt service each year is paid from a dedicated quarter-cent sales tax. For example, $1.25 billion of the $5.5 billion in general obligation bonds planned for fiscal year 2005-06 will be sold during the first half of the fiscal year. These bonds will have interest payments in the second half of the fiscal year. The remaining $4.25 billion in general obligation bonds will not have a debt service payment during the 2005-06 fiscal year and will therefore not affect the ratio. The pension obligation bonds and lease revenue bond sales planned for fiscal year 2005-06 also are not expected to have any net debt service payments during fiscal year 2005-06. When the debt service on the Economic Recovery Bonds is added to General Fund-supported debt service and the revenue from the dedicated quarter-cent sales tax is added to General Fund revenues, the resulting ratio of debt service to General Fund revenues increases to 4.71% in 2004-05 and 5.45% in 2005-06.

Debt as a Percentage of Personal Income: Comparing a state's level of debt to the total personal income of its residents measures a borrower's ability to repay its obligations since it indicates the potential ability of a state to generate revenues. In its 2005 State Debt Medians report released May 2005, Moody's Investors Service lists the State's ratio of net tax-supported debt to personal income as 4.7 percent. This figure includes the Economic Recovery Bonds; if this ratio were adjusted to exclude the Economic Recovery Bonds, the ratio of debt to personal income would be 3.8 percent. Alone, the Economic Recovery Bonds represent a ratio of debt to personal income of 0.9 percent.

Debt per Capita: Debt per capita measures state residents' average share of the State's total debt outstanding. It does not account for the employment status, income, or financial resources of the residents. As a result, debt per capita does not reflect a state's ability to repay its obligations as well as the other two ratios and is generally considered the least informative of the three debt ratios. In their 2005 State Debt Medians report released May 2005, Moody's Investors Service lists the State's net tax-supported debt per capita as $1,545. This figure includes the Economic Recovery Bonds; if this figure were adjusted to exclude the Economic Recovery Bonds, the debt per capita would drop to $1,241. Alone, the Economic Recovery Bonds represent a debt of $304 per capita.

California's Debt Levels Compared to Other Large States

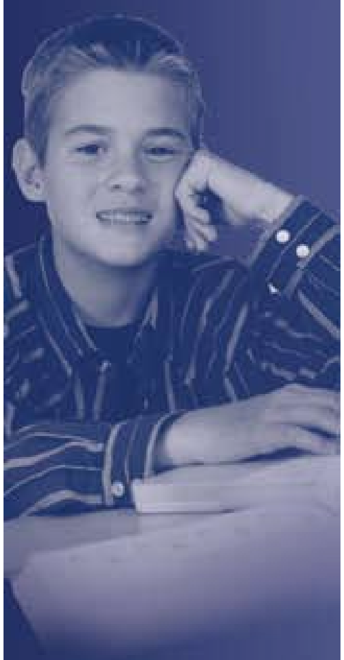
The State's debt levels are consistent with those of other large states. Moody's Investors Service calculates the ratios of debt to personal income and debt per capita for each state and publishes an annual report containing the median ratios. It is useful to compare California's debt ratios not only to the Moody's state medians but also to its "peer group" of the 10 most populous states. As shown in Figure B-3, the debt ratios of these 10 states are, on average, higher than the Moody's median for all states combined. California's ratio of net tax-supported debt to personal income and debt per capita ranks well above the medians for the 10 most populous states. However, as noted previously, a substantial share of California's debt load is for deficit borrowing, not investment in capital projects.

Figure B-3

Debt Ratios of 10 Most Populous States
Ranked by Ratio of Debt to Personal Income

State	Moody's/S&P/Fitch (1)	Debt to Personal income (2)	Debt per Capita (3)
Texas	As1/AA/AA+	1.0%	$279
Michigan	As2/Aa/aa	2.2%	$691
Pennsylvania	Aa2/AA/AA	2.3%	$730
Georgia	Aaa/AAA/AAA	2.8%	$803
Ohio	Aa1/AAA/AA+	2.9%	$866
Florida	Aa1/AAA/AA+	3.4%	$1,008
California	***A2/A/A***	***4.7%***	***$1,545***
Illinois	Aa#/AA/AA	6.2%	$2,019
New York	A1/AA/AA-	7.2%	$2,593
New Jersey	Aa3/AA/AA-	7.4%	$2,901
Moody's Median All States		**2.4%**	**$999**
Median for the 10 Most Populous States		**3.2%**	**$937**

(1) Moody's Investors Service, Standard & Poor's, and Fitch Ratings, as of August 15, 2005.
(2) Figures as reported by Moody's Investors Service in their 2005 State Debt Medians report released May 2005.
(3) Calculated as the average of the ratios reported for each measure for the fifth- and sixth-ranked states.



Appendix 1

State of California Outstanding Debt Service Requirements
General Obligation Bonds (Fixed Rate)
as of July 1, 2005

Fiscal Year Ending June 30	Interest	Principal (a)	Total
2006	$ 1,656,311,942	$ 1,384,200,000	$ 3,040,511,942 (b)
2007	1,575,738,056	1,370,780,000	2,947,518,056
2008	1,504,911,056	1,527,633,078	3,032,544,261
2009	1,422,397,719	1,601,045,000	3,023,442,719
2010	1,335,898,213	1,661,880,000	2,997,778,213
2011	1,248,527,142	1,639,289,045	2,887,816,188
2012	1,157,348,965	1,318,480,000	2,475,828,965
2013	1,092,959,771	1,032,965,000	2,125,924,771
2014	1,043,195,185	952,215,000	1,995,410,185
2015	997,731,190	899,560,000	1,897,291,190
2016	951,278,609	794,700,000	1,745,978,609
2017	909,973,611	776,485,000	1,686,458,611
2018	870,764,465	787,740,000	1,658,504,465
2019	829,608,613	856,625,000	1,686,233,613
2020	785,460,289	966,920,000	1,752,455,768
2021	737,460,289	911,545,000	1,649,005,289
2022	690,593,569	1,118,600,000	1,809,193,569
2023	633,228,608	1,153,040,000	1,786,268,608
2024	575,346,101	1,085,210,000	1,660,556,101
2025	519,060,868	1,237,535,000	1,756,595,868
2026	457,757,587	1,169,705,000	1,627,462,587
2027	398,841,526	1,188,565,000	1,587,406,526
2028	338,407,998	1,244,465,000	1,582,872,998
2029	275,727,560	1,200,275,000	1,476,452,560
2030	214,095,603	1,302,885,000	1,516,980,603
2031	149,803,162	950,770,000	1,100,573,162
2032	102,696,640	861,340,000	964,036,640
2033	59,397,139	736,870,000	796,267,139
2034	22,804,908	452,710,000	475,514,908
2035	2,784,163	59,275,000	62,059,163
TOTAL	**$22,561,186,150**	**$32,243,757,123**	**$54,804,943,273**

(a) Includes scheduled mandatory sinking fund payments

(b) Total represents the remaining debt service requirements from August 1, 2005 through June 30, 2006

SOURCE: State of California, Office of the Treasurer

Appendix 1, continued

State of California Outstanding Debt Service Requirements
General Obligation Bonds (Variable Rate)
as of July 1, 2005

Fiscal Year Ending June 30	Interest (a)	Principal (b)	Total
2006	$ 48,058,790	-	$ 48,058,790 (c)
2007	51,666,446	-	51,666,446
2008	52,101,665	-	52,101,665
2009	51,740,570	-	51,740,570
2010	51,457,121	-	51,457,121
2011	51,791,714	-	51,791,714
2012	51,628,098	-	51,628,098
2013	52,088,271	-	52,088,271
2014	51,666,446	-	51,666,446
2015	51,573,936	-	51,573,936
2016	51,621,193	$ 67,455,000	119,076,193
2017	49,896,536	87,885,000	137,781,536
2018	48,382,565	83,390,000	131,772,565
2019	46,806,619	77,080,000	123,886,619
2020	44,631,664	89,250,000	133,881,664
2021	42,331,101	183,510,000	225,841,101
2022	38,993,799	97,060,000	136,053,799
2023	36,656,296	119,800,000	156,456,296
2024	34,018,718	296,540,000	330,558,718
2025	27,967,724	201,180,000	229,147,724
2026	23,318,967	346,030,000	369,348,967
2027	16,638,655	74,285,000	90,923,655
2028	15,122,217	77,260,000	92,382,217
2029	13,237,250	110,350,000	123,587,250
2030	10,843,730	114,760,000	125,603,730
2031	8,208,389	119,350,000	127,558,389
2032	5,555,981	124,125,000	129,680,981
2033	2,735,339	129,090,000	131,825,339
2034	29,300	1,6000,000	1,629,300
TOTAL	**$1,030,769,096**	**$2,400,000,000**	**$3,430,769,096**

(a) This estimate of future interest payments is based on rates in effect as of June 30, 2005.
The interest rates for the daily, weekly, and auction rate bonds range from 2.13 - 2.48%.
(b) Includes scheduled mandatory sinking fund payments.
(c) Total represents the remaining estimated debt service requirements through June 30, 2006.
SOURCE: State of California, Office of the Treasurer

Appendix 1, continued

State of California Outstanding Debt Service Requirements
Lease Revenue Bonds
as of July 1, 2005

Fiscal Year Ending June 30	Interest	Principal (a)	Total
2006	$ 397,819,344	$ 400,922,555	$ 798,741,898 (b)
2007	392,635,453	367,108,920	759,744,374
2008	371,808,298	379,041,788	750,850,086
2009	357,279,058	402,747,732	760,026,790
2010	331,851,233	393,141,634	724,992,867
2011	300,975,740	407,760,000	708,735,740
2012	280,194,571	393,255,000	673,449,571
2013	259,944,453	404,360,000	664,304,453
2014	238,986,938	410,025,000	649,011,938
2015	217,293,725	431,070,000	648,363,725
2016	194,674,561	415,170,000	609,844,561
2017	172,423,036	423,230,000	595,653,036
2018	150,222,777	441,085,000	591,307,777
2019	127,547,138	403,580,000	531,127,138
2020	106,468,057	377,390,000	483,858,057
2021	88,052,565	317,575,000	405,627,565
2022	71,456,111	291,920,000	363,376,111
2023	57,890,788	241,540,000	299,430,788
2024	46,423,073	155,305,000	201,728,073
2025	38,455,274	163,275,000	201,730,274
2026	30,608,019	152,565,000	183,173,019
2027	22,780,918	160,350,000	183,130,918
2028	14,634,071	152,850,000	167,484,071
2029	7,620,758	92,475,000	100,095,758
2030	2,902,251	60,145,000	63,047,251
2031	87,278	3,495,000	3,582,278
TOTAL	**$ 4,281,035,487**	**$ 7,841,382,629**	**$ 12,122,418,116**

(a) Includes scheduled mandatory sinking fund payments.

(b) Total represents the remaining debt service requirements through June 30, 2006.

SOURCE: State of California, Office of the Treasurer

Appendix 1, continued

State of California Outstanding and Authorized but Unissued Bonds
General Obligation Bonds as of July 1, 2005 (in Thousands)

GENERAL FUND BONDS (Non-Self Liquidating)	Voter Authorization Date	Voter Authorization Amount	Bonds Outstanding (a)	Authorized but Unissued (b)
1988 School Facilities Bond Act	11/8/1988	$ 800,000	$ 379,635	$ 2,255
1990 School Facilities Bond Act	6/5/1990	800,000	406,560	2,125
1992 School Facilities Bond Act	11/3/1992	900,000	529,772	4,789
California Clean Water, Clean Air, Safe Neighborhood Parks, and Coastal Protection Act of 2002	3/5/2002	2,600,000	387,125	2,210,770
California Library Construction and Renovation Bond Act of 1988	11/8/1988	75,000	42,680	2,595
California Library Construction and Renovation Bond Act of 2000	3/7/2000	350,000	33,200	316,740
California Park and Recreational Facilities Act of 1984	6/5/1984	370,000	95,640	1,100
California Parklands Act of 1980	11/4/1980	285,000	18,865	-
California Safe Drinking Water Bond Law of 1976	6/8/1976	175,000	28,540	2,500
California Safe Drinking Water Bond Law of 1984	11/6/1984	75,000	18,490	-
California Safe Drinking Water Bond Law of 1986	11/4/1986	100,000	52,480	-
California Safe Drinking Water Bond Law of 1988	11/8/1988	75,000	46,625	6,975
California Wildlife, Coastal, and Park Land Conservation Act of 1988	6/7/1988	776,000	354,085	7,330
Children's Hospital Bond Act of 2004	11/2/2004	750,000	-	750,000
Class Size Reduction Public Education Facilities Bond Act of 1998 (Hi-Ed)	11/3/1998	2,500,000	2,264,360	161,600
Class Size Reduction Public Education Facilities Bond Act of 1998 (K-12)	11/3/1998	6,700,000	6,236,670	11,860
Clean Air and Transportation Improvement Bond Act of 1990	6/5/1990	1,990,000	1,304,815	212,915
Clean Water Bond Law of 1970	11/3/1970	250,000	3,000	-
Clean Water Bond Law of 1974	6/4/1974	250,000	6,635	-
Clean Water Bond Law of 1984	11/6/1984	325,000	62,800	-
Clean Water and Water Conservation Bond Law of 1978	6/6/1978	375,000	20,140	-
Clean Water and Water Reclamation Bond Law of 1988	11/8/1988	65,000	43,890	-
Community Parklands Act of 1986	6/3/1986	100,000	32,710	-
County Correctional Facility Capital Expenditure Bond Act of 1986	6/3/1986	495,000	171,205	-
County Correctional Facility Capital Expenditure and Youth Facility Bond Act of 1988	11/8/1988	500,000	273,245	-
County Jail Capital Expenditure Bond Act of 1981	11/2/1982	280,000	32,400	-
County Jail Capital Expenditure Bond Act of 1984	6/5/1984	250,000	26,150	-
Earthquake Safety and Public Buildings Rehabilitation Bond Act of 1990	6/5/1990	300,000	218,495	34,940
Fish and Wildlife Habitat Enhancement Act of 1984	6/5/1984	85,000	21,100	-
Hazardous Substance Cleanup Bond Act of 1984	11/6/1984	100,000	2,500	-
Higher Education Facilities Bond Act of 1986	11/4/1986	400,000	91,900	-
Higher Education Facilities Bond Act of 1988	11/8/1988	600,000	264,990	10,440
Higher Education Facilities Bond Act of June 1990	6/5/1990	450,000	228,900	2,110
Higher Education Facilities Bond Act of June 1992	6/2/1992	900,000	604,725	7,235
Housing and Emergency Shelter Trust Fund Act of 2002	11/5/2002	2,100,000	14,875	2,085,125
Housing and Homeless Bond Act of 1990	6/5/1990	150,000	5,965	-
Kindergarten - University Public Education Facilities Bond Act of 2002 (Hi-Ed)	11/5/2002	1,650,000	378,130	1,269,375
Kindergarten - University Public Education Facilities Bond Act of 2002 (K-12)	11/5/2002	11,400,000	8,774,415	2,577,065
Kindergarten - University Public Education Facilities Bond Act of 2004 (Hi-Ed)	3/2/2004	2,300,000	7,815	2,292,185
Kindergarten - University Public Education Facilities Bond Act of 2004 (K-12)	3/2/2004	10,000,000	439,925	9,560,075
Lake Tahoe Acquisitions Bond Act	8/2/1982	85,000	19,185	-

Appendix 1, continued

State of California Outstanding and Authorized but Unissued Bonds
General Obligation Bonds (continued)
as of July 1, 2005 (in Thousands)

GENERAL FUND BONDS (Non-Self Liquidating)	Voter Authorization Date	Voter Authorization Amount	Bonds Outstanding (a)	Authorized but Unissued (b)
New Prison Construction Bond Act of 1981	6/8/1982	$ 495,000	$ 9,750	-
New Prison Construction Bond Act of 1984	6/5/1984	300,000	7,500	-
New Prison Construction Bond Act of 1986	11/4/1986	500,000	128,580	-
New Prison Construction Bond Act of 1988	11/8/1988	817,000	365,200	$ 7,475
New Prison Construction Bond Act of 1990	6/5/1990	450,000	210,605	2,605
Passenger Rail and Clean Air Bond Act of 1990	6/5/1990	1,000,000	535,680	-
Public Education Facilities Bond Act of 1996 (Hi-Ed)	3/26/1996	975,000	837,125	37,465
Public Education Facilities Bond Act of 1996 (K-12)	3/26/1996	2,025,000	1,650,130	19,465
Safe Drinking Water Bond Act of 2000	3/7/2000	1,970,000	736,650	1,197,608
Safe Neighborhood Parks Bond Act of 2000	3/7/2000	2,100,000	1,106,850	959,915
Safe, Clean Reliable Water Supply Act of 1996	11/5/1996	995,000	617,110	336,430
School Building and Earthquake Bond Act of 1974	11/5/1974	40,000	27,985	-
School Facilities Bond Act of 1988	6/7/1988	800,000	330,285	-
School Facilities Bond Act of 1990	11/6/1990	800,000	447,300	-
School Facilities Bond Act of 1992	6/2/1992	1,900,000	1,101,080	15,055
Seismic Retrofit Bond Act of 1996	3/26/1996	2,000,000	1,646,970	172,870
Senior Center Bond Act of 1984	11/6/1984	50,000	2,500	-
State School Building Lease-Purchase Bond Law of 1982	11/2/1982	500,000	5,250	-
State School Building Lease-Purchase Bond Law of 1984	11/6/1984	450,000	68,750	-
State School Building Lease-Purchase Bond Law of 1986	11/4/1986	800,000	208,650	-
State, Urban, and Coastal Park Bond Act of 1976	11/2/1976	280,000	11,440	-
Stem Cell Research and Cures Act of 2004	11/2/2004	3,000,000	-	3,000,000
Veterans' Homes Bond Act of 2000	3/7/2000	50,000	3,080	46,920
Voting Modernization Bond Act of 2002	3/5/2002	200,000	43,880	137,370
Water Conservation Bond Law of 1988	11/8/1988	60,000	37,670	9,525
Water Conservation and Water Quality Bond Law of 1986	6/3/1986	150,000	60,955	27,600
Water Security, Clean Drinking Water, Coastal and Beach Protection Act of 2002	11/5/2002	3,440,000	498,145	2,935,700
Total General Fund Bonds		**$ 78,878,000**	**$ 34,643,757**	**$ 30,438,107**

(a) Includes the initial value of capital appreciation bonds rather than the accreted value.
(b) Includes authorized commercial paper.
SOURCE: State of California, Office of the Treasurer

Appendix 1, continued

State of California Outstanding and Authorized but Unissued Bonds
Lease Revenue Bonds
as of July 1, 2005 (in Thousands)

Lease Revenue Bonds	Bonds Outstanding	Authorized but Unissued
University of California	$ 1,695,927	$ 699,822
California State University	549,785	191,309
California Community Colleges	513,125	150,701
Department of Corrections and Rehabilitation	2,397,851	419,147
State Buildings	2,626,205	1,858,708
Energy Efficiency Revenue Bonds	58,490	-
Total Lease Revenue Bonds	**$ 7,841,383**	**$ 3,319,687**

SOURCE: State of California, Office of the Treasurer

Appendix 2

State of California Debt Service Requirements on Intended Sales of Authorized but Unissued Bonds during Fiscal Years 2005-06 and 2006-07

Fiscal Year Ending June 30	FY 2005-06 GO Sales Debt Service	FY 2006-07 GO Sales Debt Service	FY 2005-06 POB Sales Debt Service	FY 2005-06 LRB Sales Debt Service	FY 2006-07 LRB Sales Debt Service	Total Debt Service All Sales
2006	$ 35,499,675	-	-	$ 7,744,950	-	$ 43,244,625
2007	386,634,115	$ 69,166,667	$ 33,312,188	34,042,550	$ 3,570,600	526,726,120
2008	386,637,850	354,458,517	33,312,188	34,044,400	47,966,750	856,419,705
2009	386,637,650	360,342,550	33,312,188	34,036,850	47,956,450	862,285,688
2010	386,634,750	360,402,850	33,312,188	34,028,250	47,955,650	862,333,688
2011	386,639,300	360,468,200	33,312,188	34,026,950	47,961,650	862,408,288
2012	386,634,800	360,543,300	54,745,781	34,015,700	47,941,600	883,881,181
2013	386,635,000	360,611,950	54,743,438	34,017,700	47,939,150	883,947,238
2014	386,636,850	360,687,500	54,744,063	34,009,950	47,940,400	884,018,763
2015	386,631,950	360,771,650	54,741,719	34,010,650	47,927,050	884,083,019
2016	386,635,500	360,855,050	54,745,000	34,006,800	47,916,850	884,159,200
2017	386,636,500	360,947,450	54,742,188	33,995,850	47,925,600	884,247,588
2018	386,637,600	361,046,950	54,741,250	33,990,400	47,909,250	884,325,450
2019	386,635,450	361,150,450	54,744,375	33,982,300	47,904,950	884,417,525
2020	386,635,200	361,253,650	54,743,438	33,973,250	47,887,750	884,493,288
2021	386,630,400	361,370,750	54,744,844	33,964,950	47,894,200	884,605,144
2022	386,633,150	361,503,700	54,744,375	33,963,500	47,878,450	884,723,175
2023	386,638,750	361,632,950	54,742,344	33,955,000	47,871,600	884,840,644
2024	386,635,400	361,767,900	54,743,281	33,940,700	47,858,250	884,945,531
2025	386,640,200	361,915,550	54,741,094	33,931,550	47,852,550	885,080,944
2026	386,637,700	362,080,500	54,743,906	33,922,600	47,834,100	885,218,806
2027	386,630,650	362,245,250	-	33,909,350	47,831,750	830,617,000
2028	386,634,800	362,420,650	-	33,901,250	47,818,300	830,775,000
2029	386,633,050	362,614,550	-	33,887,900	47,797,600	830,933,100
2030	386,636,100	362,812,100	-	33,878,750	47,772,300	831,099,250
2031	386,636,850	363,026,200	-	33,862,500	47,779,750	831,305,300
2032	386,630,350	363,246,450	-	-	47,765,050	797,641,850
2033	386,633,600	363,489,600	-	-	-	750,123,200
2034	386,635,800	363,738,650	-	-	-	750,374,450
2035	386,632,850	364,013,600	-	-	-	750,646,450
2036	386,631,800	364,300,100	-	-	-	750,931,900
2037	-	364,600,500	-	-	-	364,600,500
TOTALS	**$ 11,634,553,640**	**$ 10,554,885,233**	**$ 987,712,036**	**$ 857,044,600**	**$ 1,200,657,600**	**$ 25,234,853,109**

SOURCE: State of California, Office of the Treasurer

The State of California's
Debt Affordability Report
2005

Phil Angelides
California State Treasurer