THE STATE OF CALIFORNIA
DEBT AFFORDABILITY REPORT

OCTOBER 2009

THE INVESTMENTS WE NEED FOR THE FUTURE WE WANT

California Needs a Master Plan

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October 1, 2009

Fellow Californians:

The recession that has rocked the national economy and world financial markets has dealt our State and local government finances a powerful blow. In the past year, the Governor and Legislature were forced by rapidly falling revenues and rising unemployment to enact three different versions of the annual budget before completing their work on the 2009-10 spending plan. Along the way, the State was forced to suspend or delay work on more than 5,000 job-creating infrastructure projects to conserve cash for vital public services.

State budget writers ultimately had to overcome an unprecedented cumulative shortfall of close to $60 billion. Doing so came at great cost to funding for our schools, universities, and health and human services programs. Cities, counties and local districts were forced to deal with losses of similar magnitude. Their finances, like State government's, remain at risk of substantial deficits for at least the next three years as California gradually recovers from what is likely the worst and longest recession since the Great Depression.

For our 2009 Debt Affordability Report, "The Investments We Need for the Future We Want: California Needs a Master Plan," I asked our staff to survey the damage done by the recession and dysfunctional credit market to our state's ability to finance its critical infrastructure needs. The Report assesses the effects over the near-term and the next two decades, and updates the findings of our 2007 Debt Affordability Report. That edition underscored the need for longer-range planning for capital projects and to better integrate infrastructure priority-setting within the State budget process.

This year's report concludes the fiscal earthquake that struck California in 2008 and 2009 will cause debt service to consume a larger piece of the State's General Fund. The portion will grow from the current 6.7 percent to 10 percent or more by the middle of the next decade unless the budget improves. So it is more urgent than ever to arrive at consensus about infrastructure needs and financing costs and to incorporate careful debt planning into the budget process.

The current debate about how to finance improvements to California's water infrastructure system provides a timely and pressing case study. Some have suggested paying the entire cost with State general obligation bonds, which must be repaid from the General Fund. But this report makes clear that further increasing the General Fund's debt burden, especially in the next three difficult budgets, would require cutting even deeper into crucial services already reeling from billions of dollars in reductions. The case for user-funding for most water system improvements is compelling, both as a matter of equity and fiscal prudence.

Exactly 50 years ago, the Legislature and Governor Edmund G. "Pat" Brown established a Commission on a Master Plan for Higher Education. The members included higher education leaders and expert public members. Charged with developing a blueprint for meeting the higher education demands of our rapidly growing state, the Commission completed its work within a year. The Master Plan laid out specific guidelines for financing, constructing and allocating resources. For the following four decades, it guided decisions and measured success, and California's higher education system became the best on the planet. Today, we need the same bipartisan commitment, good will and good sense to plan and build the kind of California we want for ourselves, our children and our grandchildren.

So this report urges the creation of a Commission on a Master Plan for Infrastructure Financing and Development. The Commission would complete a thorough and public assessment of the state's infrastructure needs, costs and financing alternatives. And it would produce a blueprint and timetable for building a California that is prosperous and a great place to call home. In addition to creating the Commission, I urge the Legislature and Governor to permanently and systematically incorporate the state's infrastructure finance needs into the annual budget process.

I commend and thank the staff of the State Treasurer's Office, and our financial advisers and economists. They helped us make sense of the rapid and often chaotic events that so profoundly changed California's finances over the past two years. Their efforts made it possible to deal effectively with severe difficulties while keeping close watch on California's future well-being.

On their behalf and mine, thank you for the opportunity to serve the people of California.

Bill Lockyer

BILL LOCKYER
California State Treasurer

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Preface

Government Code section 12330 requires the Treasurer to submit an annual debt affordability report to the Governor and Legislature. The law requires the Treasurer to provide the following information:

- A listing of authorized but unissued debt that the Treasurer intends to sell during the current year (2009-10) and the budget year (2010-11) and the projected increase in debt service as a result of those sales.
- A description of the market for State bonds.
- An analysis of the credit ratings of State bonds.
- A listing of outstanding debt supported by the General Fund and a schedule of debt service requirements for that 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 General Fund revenues, debt to personal income, debt to estimated property value and debt per capita.
- A comparison of these debt ratios with the comparable debt ratios for the 10 most populous states.
- A description of the percentage of the State's outstanding general obligation bonds constituting fixed rate bonds, variable rate bonds, bonds that have an effective fixed interest rate through a hedging contract and bonds that have an effective variable interest rate through a hedging contract.
- A description of any hedging contract, the outstanding face value, the effective date, the expiration date, the name and ratings of the counterparty, the rate or floating index paid by the State and the rate or floating index paid by the counterparty, and an assessment of how the performance of the State's hedging contracts met the objectives of the hedging contracts.

NOTES ON TERMINOLOGY

- 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.
- Fiscal years are referenced without using the term "fiscal year" or "fiscal." For example, 2009-10 means the 2009-10 fiscal year.
- When referring to the government the word "State" is capitalized. When referring to California, the word "state" is lower-cased.

Executive Summary

INTRODUCTION

Pushed by a deep recession and political paralysis, the State of California in 2008 and 2009 fell to a low point in its fiscal history.

State revenues plunged more deeply and swiftly than at any time since the Great Depression. Meanwhile, the State needed to spend more money on social services because California workers were losing their jobs at a persistently high rate.

A budget deficit surfaced in Fall 2008 and rapidly grew to an historic high. After a protracted stalemate, the Legislature and Governor addressed the $35.8 billion shortfall in February of this year. But the easy breathing didn't last long. They soon confronted another $24 billion hole to fill. They got that job done in July, but not before the State was forced to issue more than $2.6 billion of IOUs to vendors, local governments and taxpayers.

The prolonged fiscal struggles brought into sharp focus the link between the State's effort to balance its budget and its ability to plan, finance and build the infrastructure critical to California's future.

As a result of the marathon budget crisis, and the unprecedented malfunction of national and global credit markets:

- The State could not sell any general obligation (GO) infrastructure bonds for nine months, from July 2008 to March 2009.
- Two rating agencies, Moody's Investors Service (Moody's) and Fitch Ratings (Fitch), in July of this year downgraded the State's GO bonds from A-level to BBB-level. The actions raised fears that junk bond status wasn't far away.
- To conserve cash for education, debt service and other priority payments, the State on December 17, 2008 halted interim financing for more than 5,000 infrastructure projects. The freeze delayed or stopped work on schools, roads, housing, parks and other projects across California — projects initiated under voter-approved bond acts. It affected thousands of jobs for workers, billions of dollars in revenues for private businesses, and imperiled many community-based and nonprofit organizations.

What caused the infrastructure spending freeze? As mentioned above, the State's growing budget deficit, coupled with the virtual shutdown of the national credit market, closed the bond-market door to California for several months. The State's interim loans for infrastructure projects came out of the same pot of money — the Pooled Money Investment Account (PMIA) — that provided lifeblood cash for the day-to-day delivery of vital public services.

Here's how the process worked under normal circumstances: Proceeds from bond sales conducted at regular intervals repaid the temporary infrastructure loans, the PMIA was replenished, and both public

services and public works projects received the cash they needed. Now, though, the State couldn't sell bonds, the PMIA didn't get replenished, and the cash for services was evaporating. To stop the money from completely disappearing, the State froze the infrastructure loans.

Funding for most projects resumed after the State's successful return to the bond market in March of this year. But loans to advance money for infrastructure projects remain curtailed while the State evaluates the best way to expedite infrastructure funding and still protect funding for the State's day-today operations. In the meantime, the State will rely more on a financing system that requires bonds to be sold before funds are made available to projects rather than after interim loans are advanced.

The 2007 Debt Affordability Report offered a budget framework to facilitate more effective capital investment planning. In the report — *Looking Beyond the Horizon: Investment Planning for the 21st Century* — the Treasurer urged policymakers to adopt a longer-term approach to budget planning and prioritizing. The Treasurer said capital investment should be fully considered alongside services as a competing priority for finite — and too often scarce — General Fund dollars.

This report picks up where the 2007 edition left off. It briefly discusses the State's short-term fiscal prognosis, which has grown much more challenging since the 2007 Report. It presents data that illustrate how that prognosis, and the budget's longer-term health, could be affected as the State issues new General Fund-backed bonds to finance currently authorized or reasonably anticipated infrastructure development.

For example, the State Treasurer's Office (STO) estimates General Fund debt service payments could total $23.16 billion from 2010-11 through 2012-13. Over the same period, the Department of Finance (DOF) projects the structural gap between General Fund revenues and expenditures will total a cumulative $38 billion. Obviously, the next three annual state budgets will present tough challenges as policymakers weigh the need for critical infrastructure, such as water transport, against the need to provide vital public services during a period of greatly reduced revenues.

The numbers in this report carry one clear implication: State policymakers must adopt a thoughtful, strategic and longer view to capital outlay planning and investment. If they don't, a day will soon come when the traumatic history of the past two years will seem like the good old days.

KEY DATA POINTS

Medium-Term Budget Estimates – Based on the DOF's revised revenue and expenditure estimates, the State General Fund from 2010-11 through 2012-13 will have a cumulative, structural deficit of $38 billion. That figure represents the difference between projected available revenues ($273.7 billion) and expenditures to fund operations and pay debt service ($311.7 billion). The $38 billion aggregate shortfall includes $7.4 billion in 2010-11, $15.5 billion in 2011-12 and $15.1 billion in 2012-13. The Legislature and Governor will have to adopt solutions every year to eliminate the annual shortfalls.

Medium-Term Bond Issuance – From 2010-11 through 2012-13, the STO estimates the State is on track, based on certain assumptions (see *Bond Issuance through 2027-28* below), to issue $44.06 billion in additional General Fund-backed bonds. As of July 1, 2009, the State had $67.09 billion in outstanding debt on General Fund-backed bonds already sold. The combined debt service cost to the General Fund on outstanding bonds and the estimated additional bonds will rise from $7.03 billion in 2010-11 to $8.42 billion in 2012-13. As a percentage of General Fund revenues, the combined debt service payments will grow from 7.7 percent to 8.81 percent.

Clearly, rising debt service costs during the next three budget cycles will crimp the availability of General Fund monies to pay for State services. The problem will not begin to recede until the State's revenue flow begins to recover from the recession. Even then, STO estimates debt service costs will be at historically high levels through the coming decade and beyond.

Policymakers' budget challenges over the next three fiscal years will be further complicated by another factor. Most of the debt service in the period is for bonds already issued. That means balancing the budget will have to be accomplished with little help from the debt service side of the ledger.

Bond Issuance through 2027-28 – From 2009-10 through 2027-28, the STO projects the State will issue $225.98 billion in debt backed by the General Fund. The estimate assumes: the State will sell all bonds currently authorized by voters; the Legislature and voters will approve the remaining amount of the Governor's Strategic Growth Plan 2, and those bonds will be sold per the schedule projected by the DOF; and voters will approve additional General Fund-backed bonds from 2010-26 at about the same rate they did from 1986-2004.

Annual Debt Service Projections – The STO estimates that from 2009-10 through 2027-28, the General Fund will provide $87.50 billion to pay debt service on bonds the State already has sold. The annual amounts will drop from a high of $5.75 billion in 2009-10 to $3.63 billion in 2027-28. If the State actually sells all of the $225.98 billion of projected additional bonds, the STO estimates the General Fund will pay an additional $167.46 billion for debt service over the period.

- Annual payments on the additional bonds would start at $260 million in 2009-10 and grow to $16 billion in 2027-28, when the STO projects General Fund revenues will be $213.9 billion.
- The combined debt service on already-sold bonds and projected additional issuances would total $254.96 billion over the period, in annual amounts rising from $6.01 billion in 2009-10 to $19.64 billion in 2027-28.
- The percentage of General Fund revenues used to pay the combined debt service would increase from 6.71 percent in 2009-10 to 9.18 percent in 2027-28. Annual debt service costs would exceed 10 percent of General Fund revenues from 2014-15 through 2020-21. (See Figure 5)

All of these trend lines converge to produce what would be the highest proportion of General Fund debt service cost in history. At some point, an increased debt payment ratio could undercut the State's ability to raise the credit ratings on its GO bonds. Currently, the agencies consider the State's debt burden moderate. They could view it as high if General Fund obligations grow too large.

Obviously, budget-makers can choose to change some of the variables used in our budget assumptions: They can increase revenues, decrease expenditures for other General Fund programs, or reduce or moderate the increase in the amount of future debt incurred. Changes in State and local relationships, governance or responsibilities could have an impact on who pays and how much — certainly for infrastructure, but also for other government services now supported by the General Fund. It will be up to policymakers and California voters to decide, budget-by-budget and election-by-election, whether and how to afford this level of debt service. The necessary planning, however, should begin today.

The Treasurer believes the public and policymakers would benefit from a thoughtful review of the state's infrastructure needs and what it will take to meet those needs. The assessment should be conducted in public. And it should benefit from the same good will, pragmatism and bipartisan commitment to implementation that benefited the Master Plan for Higher Education 50 years ago. A similar effort is required to build the state, and future, we want.

RECOMMENDATIONS

1) California should adopt a Master Plan for Infrastructure Financing and Development. The Governor and Legislature should appoint a commission to produce the master plan. This blueprint should fully assess the state's long-term capital outlay needs for the period 2010 to 2050, estimate the annual costs of financing construction through the issuance of bonds during that period, and analyze the availability of state, local and private revenues to complete construction or replacement of necessary infrastructure. The framework for financing those needs should fully integrate infrastructure development into the State budget process.

2) The Legislature and Governor should begin in 2009-10 to craft a thoughtful and effective response to projected growing deficits. In conducting this assessment, they should focus on both the State's operating budget and its debt budget. If DOF estimates are correct, immediate pressure to balance the current-year budget has been relieved. That means the coming months provide the Legislature and Governor precious time to conduct a reasoned assessment of the State's longer-term fiscal condition.

Section 1: Capital Investment

Debt Capacity as Fiscal Policy

The DOF projects California's population will reach 50 million within 25 years. By 2050, there will be about 60 million people living in our state, nearly twice as many as in 2000. Meanwhile, we have an infrastructure designed and built to serve 25 million people. Accommodating the projected population growth will require: 220,000 new homes every year; 19 new classrooms every day for five years; capacity to deliver an additional 200,000 acre-feet of water to Central and Southern California; and enough highways for 42 percent more vehicles.

Capital investment benefits all Californians. Better schools produce better-educated kids who can excel in global competition. Well-planned public investment strengthens our economy. Our communities, businesses and quality of life are enriched with better roads, smarter development and rapid transit. We can shorten our commutes to work and home and restore lost time for family and recreation. We can dramatically reduce ratepayer, taxpayer and environmental costs by cleaning our air and water, improving the state's "plumbing" so conservation becomes a built-in part of our water system, and constructing and retrofitting California's public and private buildings to conserve energy and use renewable energy.

These investments will pay huge dividends for California. They will provide better health and lasting economic prosperity, and preserve our state as a promising place to live, work and raise a family.

But our state's once-preeminent infrastructure has suffered decades of neglect. And it shows. In fact, analysts conservatively estimate that California needs at least $500 billion in new or replacement infrastructure between now and 2025. Fortunately, the infrastructure dis-investment trend has started to turn around. In the last five years, thanks to voter authorization, the State has issued $33.6 billion of GO bonds to build or rebuild infrastructure. In November 2006, voters approved $42.7 billion of capital outlay bonds, and in November 2008 they approved another $10.94 billion.

In 2006, the Governor unveiled the Strategic Growth Plan (SGP), which proposed $222 billion of new and existing funds for infrastructure projects over 10 years. The $42.7 billion approved by voters in November 2006 represented the first installment on that investment. In his 2008 California Strategic Growth Plan report, the Governor proposed $2.3 billion of additional lease revenue bonds and $48.1 billion of new GO bonds to be placed on the ballot by 2010. In November 2008, voters approved $9.95 billion to finance high speed rail.

Against this backdrop, the central questions are these: How do we pay to rebuild and restore the state we want for ourselves, for our children and for the generations to come? To what extent can, or should, the State's General Fund continue to finance the capital investment we need?

LEGISLATURE AND GOVERNOR ACT TO CONSTRAIN SPENDING GROWTH

Even though the 2008 and 2009 budget negotiations were considered especially difficult, the Legislature and Governor balanced the 2009-10 Budget and took steps to reduce General Fund spending in the coming years.

As shown in Figure 1, revised DOF estimates (made following enactment of the July 2009 revised budget) peg cumulative General Fund expenditures from 2010-11 through 2012-13 at $311.7 billion.[1] Large as that number may sound, it is $72 billion less than the spending projections made in November 2007 by the Legislative Analyst's Office (LAO).[2] Reductions in State spending have been substantial and significant, and they have seriously harmed millions of Californians. Still, the pain would have been far worse if the Legislature and Governor had failed to balance the budget and plunged the State into insolvency.

MEDIUM-TERM OUTLOOK WORSENS

Spending is only half the fiscal equation. The DOF's revised estimates for 2010-11 through 2012-13 show revenues consistently will fall short of expenditures. Figure 2 shows cumulative revenues over the period will total $273.7 billion - $38 billion less than the revised expenditure estimate of $311.7 billion.

DEBT ISSUANCE SCENARIO

Current General Fund Debt – Debt service on already sold, or outstanding, General Fund-backed debt will total approximately $5.75 billion in 2009-10. In subsequent years, General Fund debt service payments for these obligations gradually will decline. Cumulatively, over the next 19 years, the State will be obliged to pay about $87.50 billion in debt service on currently outstanding bonds.

FIGURE 1

GENERAL FUND EXPENDITURES 2010-11 THROUGH 2012-13
(DOLLARS IN BILLIONS)

Estimates Made by Department of Finance after Enactment of July 2009 Budget Revision

	2010-11	2011-12	2012-13	CUMULATIVE
Expenditures	$98.7	$102.3	$110.7	$311.7

FIGURE 2

GENERAL FUND REVENUE AND TRANSFERS ESTIMATES 2010-11 THROUGH 2012-13
(DOLLARS IN BILLIONS)

Estimates Made by Department of Finance Following Enactment of July 2009 Budget Revision

	2010-11	2011-12	2012-13	CUMULATIVE
Revenues and Transfers	$91.3	$86.8	$95.6	$273.7

[1] California Department of Finance, "General Fund Multi-Year Projects as Amended 2009 Budget Act" (August 11, 2009).

[2] Legislative Analyst's Office: Fiscal Outlook 2007-08 through 2012-13. November 2007.

New General Fund Debt – The STO estimates, based on the assumptions below, the State will issue $225.98 billion of additional General Fund-backed bonds from 2009-10 through 2027-28. See Figure 3 for details.

General Fund debt service payments on this additional borrowing will be about $260 million in 2009-10. The amount will grow each subsequent year, reaching $16.01 billion in 2027-28. Cumulatively by 2027-28, the General Fund will pay about $167.46 billion in debt service on the estimated additional bond issuance. This scenario assumes the following:

- Debt that the voters or Legislature already have approved is issued by the State according to the DOF's projected schedule.
- The State issues $15.10 billion in new General Fund-backed debt in 2009-10.
- Voters in future elections approve the remaining amount of General Fund-backed debt proposed by the Governor's SGP 2. We further assume that the State will issue this debt per the DOF's projected schedule.
- In each bi-annual election year from 2012 through 2026, voters approve new GO bonds at the same rate they did between 1986 and 2004, with the total amount adjusted for inflation and population changes. Based on this assumption, we estimate voters will approve $150.5 billion of additional debt over the period, growing from $13.8 billion in 2012 to $24.6 billion in 2026.

FIGURE 3

PROJECTED NEW BOND ISSUANCE 2009-10 THROUGH 2027-2028
(DOLLARS IN BILLIONS)

FISCAL YEAR	AUTHORIZED BUT UNISSUED	SGP 2	OTHER AUTHORIZED	TOTAL
09-10	$15.10	$0.00	$0.00	$15.10
10-11	13.74	0.44	0.00	14.18
11-12	10.71	2.66	0.00	13.37
12-13	8.53	4.27	3.70	16.51
13-14	6.70	5.70	3.55	15.94
14-15	6.04	7.70	1.70	15.44
15-16	3.88	6.31	2.81	13.01
16-17	0.70	3.68	6.55	10.93
17-18	0.06	2.62	8.34	11.02
18-19	0.00	0.96	8.55	9.51
19-20	0.00	0.96	8.18	9.14
20-21	0.00	0.96	8.51	9.47
21-22	0.00	0.96	8.36	9.32
22-23	0.00	0.96	8.88	9.84
23-24	0.00	0.96	8.84	9.80
24-25	0.00	0.95	9.50	10.45
25-26	0.00	0.86	9.60	10.46
26-27	0.00	0.00	11.21	11.21
27-28	0.00	0.00	11.25	11.25
	$65.48	$40.96	$119.54	$225.98

Balance of projected $150 billion GO bonds authorized will be issued after FY 2027-28.
Figures assume approval of SGP 2. Excludes self-liquidating GO bonds.

Combining currently outstanding and projected additional bonds, the General Fund's cumulative debt service payments from 2009-10 through 2027-28 will total $254.96 billion. See Figure 4 for details.

LONG TERM OUTLOOK UNCERTAIN

As described in the 2007 Debt Affordability Report, the State can sustain its operating and capital budgets only when it matches its long-term stream of resources to its long-term expenditure structure. Looking out 20 years, the 2007 report projected an average annual gap of about 3.5 percent between revenues and spending — a manageable number.

Much has happened to the State's fiscal condition since the 2007 estimates. The Legislature and Governor have cut General Fund spending, but the recession has taken a heavy toll on General Fund revenues.

In reassessing the State's long-term fiscal condition for this report, the STO provides only revenue projections and assumes the Legislature and Governor will balance General Fund revenues and expenditures annually. The STO used the DOF's revised General Fund estimates of revenues and transfers for the period through 2012-13. For subsequent years, the STO staff assumed:

1) An annual combined rate of inflation and population growth of 5 percent.

2) An annual rate of real economic growth of 1 percent.

3) Personal income tax revenue will grow at a rate .05 percent faster than the economy. The rest of the State General Fund tax base will grow at rate slower than the economy.

FIGURE 4

PROJECTED GENERAL OBLIGATION AND LEASE REVENUE BONDS DEBT SERVICE PAYMENTS (DOLLARS IN BILLIONS)

FISCAL YEAR	OUTSTANDING	AUTHORIZED BUT UNISSUED	SGP 2	OTHER AUTHORIZED	TOTAL
09-10	$5.75	$0.26	$0.00	$0.00	$6.01
10-11	5.68	1.34	0.01	0.00	7.03
11-12	5.35	2.31	0.05	0.00	7.71
12-13	5.06	3.07	0.29	0.00	8.42
13-14	5.41	3.68	0.64	0.34	10.07
14-15	5.31	4.18	1.07	0.53	11.09
15-16	4.96	4.60	1.64	0.71	11.90
16-17	4.75	4.85	2.08	0.93	12.61
17-18	4.86	4.89	2.32	1.47	13.54
18-19	4.49	4.89	2.53	2.03	13.94
19-20	4.41	4.89	2.60	2.69	14.59
20-21	4.14	4.89	2.67	3.25	14.94
21-22	4.05	4.89	2.74	3.91	15.59
22-23	4.08	4.89	2.81	4.47	16.25
23-24	3.99	4.89	2.88	5.17	16.92
24-25	3.99	4.89	2.95	5.77	17.59
25-26	3.96	4.89	3.01	6.51	18.38
26-27	3.63	4.89	3.06	7.18	18.76
27-28	3.63	4.89	3.06	8.05	19.64
TOTAL	$87.50	$78.08	$36.39	$52.99	$254.96

The debt service on currently outstanding GO bonds is net of Build America Bonds subsidies and excludes Economic Recovery Bonds and other self-liquidating GO bonds. All GO bonds to be issued are assumed to carry a 6 percent interest rate with a level debt service over 30 years. All lease revenue bonds to be issued are assumed to carry a 6.75 percent interest rate with level debt service over 25 years.

The STO's long-term revenue estimates, along with debt service projections, are shown in Figure 5.

FIGURE 5

PROJECTED REVENUES AND DEBT SERVICE RATIOS (DOLLARS IN BILLIONS)

FISCAL YEAR	PROJECTED REVENUES	TOTAL DEBT SERVICE	DEBT RATIO
09-10	$89.54	$6.01	6.71%
10-11	91.28	7.03	7.70%
11-12	86.79	7.71	8.89%
12-13	95.59	8.42	8.81%
13-14	102.65	10.07	9.81%
14-15	109.17	11.09	10.16%
15-16	114.96	11.90	10.35%
16-17	121.06	12.61	10.41%
17-18	127.49	13.54	10.62%
18-19	134.26	13.94	10.38%
19-20	141.39	14.59	10.32%
20-21	148.90	14.94	10.03%
21-22	156.80	15.59	9.94%
22-23	165.13	16.25	9.84%
23-24	173.91	16.92	9.73%
24-25	183.15	17.59	9.60%
25-26	192.88	18.38	9.53%
26-27	203.13	18.76	9.23%
27-28	213.93	19.64	9.18%
TOTAL	$2,652.00	$254.96	

It is clear that rising debt service costs will take the State's debt ratio to high levels — exceeding 10 percent during the middle years of the period. If policymakers find these levels unsustainable, the necessary adjustments to revenues, expenditures, debt authorization or some combination of all these, should begin soon.

CONCLUSION

As the State's fiscal condition continues to worsen, policymakers face continuing challenges to align revenues and expenditures.

Section 2: Master Plan for Capital Improvements

CURRENT PLANNING FALLS SHORT

The Governor each year submits to the Legislature a five-year infrastructure report, pursuant to the California Infrastructure Planning Act. In the report, the Governor identifies the capital cost for new, rehabilitated, modernized, improved or renovated infrastructure requested by State agencies, schools and universities.

The report identifies possible funding sources. If the Governor proposes the issuance of new State debt, he or she must evaluate the impact of that debt on the State's finances.

The report, by itself, cannot ensure the State will prudently and properly plan. Additionally, it covers only a five-year period. Successful infrastructure development requires a longer-term vision. The State does have a longer-term, more strategic approach to transportation planning. But that's only one corner of the infrastructure universe.

Under current practice, policymakers find many ways to shift funding from the capital budget to the operating budget. For example, the State virtually has eliminated pay-as-you-go capital allocations and used the savings to finance operating expenses. It has deferred — especially in times of fiscal stress — capital acquisition and maintenance expenditures in favor of funding additional operating expenses. Every time it defers infrastructure maintenance in favor of increasing the operating budget, it shifts costs from the capital budget. When the State has sold "Economic Recovery Bonds," authorized by voters in 2004, it has used its debt capacity to finance prior-years' operating expenses. Over time, this practice can lead to under- or dis-investment in infrastructure. To avoid this practice, the Legislature and Governor should actively, consistently and prudently make capital finance decisions an ongoing part of the annual budget process.

THE SOLUTION

To improve planning and investment, the Treasurer recommends:

- The Governor and Legislature establish a commission to develop a Master Plan for Infrastructure Financing and Development. The commission should include experts in capital needs assessment and finance, both as members and staff. The Master Plan for Infrastructure Financing and Development should:
  - ✓ Assess the State's capital outlay needs through 2050.
  - ✓ Recommend guidelines for the Governor and Legislature to use to set and maintain investment priorities. The guidelines should allow policymakers to adapt priorities to changing circumstances, when necessary, without abandoning overall planning objectives.

- ✓ Determine State, federal and local public funds likely to be available during the period, and the size of any funding shortfall that may remain.

- ✓ Provide a financing framework that, on an ongoing basis, fully integrates capital investment into the State budget process. The financing framework should include a recommended mix of State funding sources to pay for infrastructure financing, including the General Fund and user fees.

  The report should evaluate the feasibility of private financing, and meeting infrastructure needs through alternatives to capital outlay. For example, the State can encourage better use of existing capital by incentivizing off-peak use of roads, structures or facilities. It can impose higher user or congestion fees for limited facilities or facilities in high demand. It can reduce capital and maintenance costs by more actively using "lifecycle" financing. It can reduce the need for new infrastructure in undeveloped areas by encouraging urban in-fill policies and greater use of public transit. Perhaps the State can most effectively manage its capital costs by establishing a means to measure the rate of return on projects and finance those projects that are the most cost-effective and highest priority. To further the goal of relieving stress on the General Fund, the master plan also should propose ways to realign state-local responsibilities for funding infrastructure.

- ✓ Lay out a timetable for capital outlay expenditures.

As a model, the Legislature and Governor should consider the State's higher education master plan. In 1959, Governor Edmund G. Brown appointed experts in their field to study the baccalaureate and post-baccalaureate needs of the state. By 1960, the experts developed recommendations for integrating a complex and sprawling set of public and private institutions of higher learning. They proposed ways to ensure an unparalleled level of access to university learning, including necessary capital expenditures, and the means to finance California's higher education needs at a time of rapid population growth.

The Treasurer intends to seek bipartisan support for the introduction and enactment of legislation to create the commission, set deadlines for completion of the master plan, and provide necessary funding for the Commission to conduct its work thoroughly, publicly and expeditiously.

Section 3: Market for State Bonds

The State is the single largest issuer of tax-backed bonds in the $2.3 trillion U.S. municipal bond market. The performance of the State's bonds, measured by the yields at which they can be sold, is driven not only by the balance between supply and demand for the bonds, but also by the performance of alternative, but similar, investment vehicles — namely, other municipal bonds. As a result, the market for the State's bonds is affected both by events specific to the State and its fiscal condition, and events affecting the municipal bond market as a whole.

The State has not been alone in facing challenges brought by declining revenues and a growing deficit. Many other State and local governments have confronted similar problems caused by the global economic crisis, and these problems have impacted the entire municipal bond market.

Therefore, a discussion of the market for the State's bonds must first describe the larger municipal bond market.

THE FINANCIAL CRISIS

While many aspects of the global financial downturn have subsided, the crisis became acute in the first quarter of 2008-09. And many of the same troubles that plagued the municipal bond market and wider credit markets through much of 2008-09 continued in 2009-10. Those problems included increased credit spreads, poor liquidity and severe distress within numerous financial institutions that were active participants in the municipal bond market. (See Section II of the 2008 Debt Affordability Report for a more thorough discussion of these topics.)

In September 2008, numerous events marked the height of the financial crisis. Selected events from this period are highlighted in Figure 6.

In response to these events, investors fled to quality and purchased U.S. Treasury bonds rather than other credits. Municipal bond funds witnessed large net outflows of cash, and they focused on maintaining liquidity for redemptions of deposits by investors. Meanwhile, institutional investor demand for municipal bonds evaporated, seemingly overnight.

With little or no institutional support for new offerings, the volume of municipal bond issuance declined significantly. For the most part, only smaller issuances which could be purchased in their entirety by retail (individual) investors came to market. Virtually all municipal bond sales regardless of size were completed through a negotiated, as opposed to competitive bid, sales process. The few larger municipal

FIGURE 6

SEPTEMBER 2008 EVENTS THAT MARKED THE FINANCIAL CRISIS

SEPTEMBER	EVENT
7	• Federal Housing Finance Agency places Fannie Mae and Freddie Mac in government conservatorship; U.S. Treasury Department announces additional measures to support the repayment of their debt liabilities.
15	• Lehman Brothers Holdings Inc. files for Chapter 11 bankruptcy protection • Bank of America announces its intent to purchase Merrill Lynch.
16	• The Federal Reserve Board authorizes lending up to $85 billion to American International Group (AIG). • Net asset value of shares in The Reserve Primary Money Fund, a money market fund, falls below $1.
17	• The Securities Exchange Commission announces a temporary emergency ban on short selling in the stocks of all companies in the financial sector.
19	• U.S. Treasury Department announces the Temporary Guarantee Program to guarantee investments in participating money market funds. (See event for September 22 below.)
20	• U.S. Treasury Department submits draft legislation to Congress for authority to purchase troubled assets.
21	• The Federal Reserve Board approves applications of investment banking companies Goldman Sachs and Morgan Stanley to become bank holding companies.
22	• The IRS issues guidance confirming that participation in the Temporary Guarantee Program will not be treated as a federal guarantee that jeopardizes the tax-exempt treatment of payments by tax-exempt money market funds.
25	• Washington Mutual Bank is closed by the Office of Thrift Supervision; its banking operations are acquired by JPMorgan Chase in a transaction facilitated by the FDIC.
29	• The FDIC announces Citigroup will purchase the banking operations of Wachovia Corporation and agrees to enter into a loss-sharing arrangement with Citigroup on pool of loans acquired from Wachovia. (On October 3rd, Wells Fargo announced a competing bid to purchase Wachovia, which was ultimately accepted.) • The U.S. House of Representatives rejects legislation submitted by the U.S. Treasury Department requesting authority to purchase troubled assets from financial institutions.

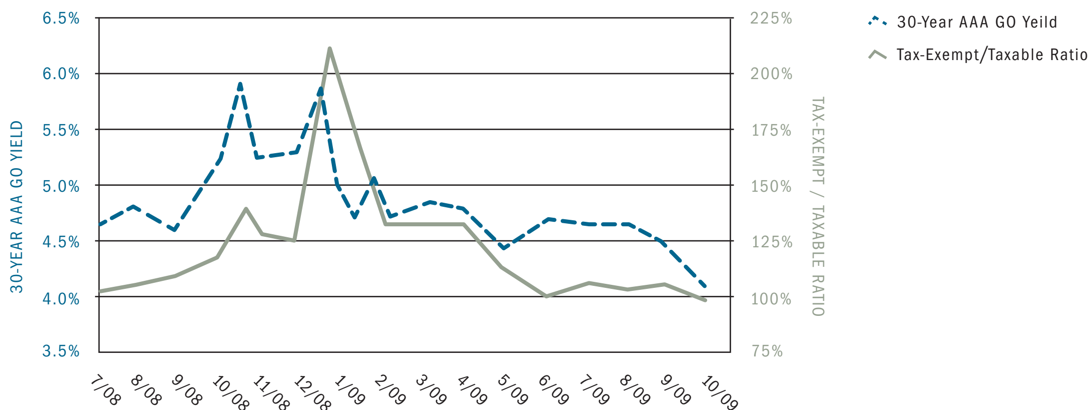
bond issuances from September to December of 2008 experienced significant increases in borrowing costs as long-term tax-exempt interest rates rose by more than one percent during this period.

GRADUAL RETURN TO "NORMAL" MARKET CONDITIONS

While tax-exempt interest rates increased significantly from early September through mid-December 2008, yields on U.S. Treasuries decreased sharply in response to investors seeking safety. As a result, the ratio between tax-exempt bond and U.S. Treasury yields increased to the highest levels in 25 years. At one point, the ratio between 30-year municipal bonds and the corresponding benchmark Treasury yields grew to more than 200 percent. This all-time high ratio was highlighted in several articles in major national publications in December 2008 and January 2009. The media reports helped prompt increased investor interest in municipal bonds and a new influx of cash into municipal bond mutual funds. Tax-exempt interest rates declined markedly. Except for a short pause in February, the ensuing market rally lasted through mid-March, when the volume of municipal bond issuance increased sufficiently to offset growing investor demand. Figure 7 displays the trends in tax-exempt interest rates from July 2008 to October 2009.

FIGURE 7

TRENDS OF TAX-EXEMPT INTEREST RATES



Source: Thompson Municipal Market Monitor (TM3).

It is difficult to know whether the current relationship between taxable and tax-exempt interest rates represents a return to "normal" market conditions or only an intermediate step in the market's evolution. The events of the past year have illustrated that taxable and tax-exempt interest rates are affected by their own dynamics and, therefore, do not necessarily move in tandem. Supply and demand triggered by the flows in and out of municipal bond mutual funds, and the issuance of Build America Bonds (see discussion below), have been the primary drivers of tax-exempt interest rates. For U.S. Treasuries, the prospect of a growing deficit and "flight-to-quality" investor sentiment have driven yields. In fact, the correlation between the 10-year municipal bond and U.S. Treasury rates has declined from a 10-year historic average of 81 percent to less than 5 percent over the past fiscal year. (100 percent indicates perfect correlation; 0 percent indicates no correlation.)

Other changes occurred in the municipal market. The departure of numerous large investment banks reduced competition among underwriters. In addition, the events of the past fiscal year highlighted market access risk and the importance of retail participation. These developments spurred more and more issuers to consider the use of negotiated sales, rather than competitive bids, when issuing new bonds.

At the same time, the refinancing of troubled variable rate bonds has remained at high levels because of banks' reduced capacity to provide credit support for such bonds. In most cases, the refinancings have converted variable rate bonds to fixed rate, although a few new floating rate products have been introduced in 2009.

BUILD AMERICA BONDS

President Obama on February 17, 2009 signed into law the American Recovery and Reinvestment Act of 2009 (ARRA). The ARRA included a number of provisions designed to benefit municipal bond issuers: Build America Bonds (BABs), Recovery Zone Bonds, a temporary suspension of the alternative minimum tax provisions for certain private activity bonds, Qualified School Construction Bonds and Clean Renewable Energy Bonds, among others. The BABs have been the most well-received of these initiatives.

Under the BABs program, municipal issuers may issue federally taxable bonds to fund projects that normally are financed with tax-exempt bonds. Because the interest on the BABs would be subject to taxation, the interest rates on these bonds are higher than those on tax-exempt bonds. To offset the higher interest rate,

the U.S. Treasury Department pays the issuer a direct subsidy equal to 35 percent of the interest paid on the BABs. In effect, the issuer of BABs pays only 65 percent of the interest. In many instances this year, the effective rate on the BABs, net of the federal subsidy, has been less than the rate on tax-exempt bonds of comparable maturities.

Many municipal issuers, including the State, immediately began to take advantage of the savings afforded by the direct-subsidy BABs program. The first BABs issuances were brought to market in mid-April 2009, after the Internal Revenue Service distributed guidelines for the program. Through the end of August, $28 billion of direct-subsidy BABs had been issued nationwide. The State in April 2009 completed the largest of these deals, at $5.2 billion. The use of BABs rather than tax-exempt GOs will save California taxpayers approximately $1.7 billion over the life of the bonds.

The direct-subsidy BABs program has transformed the municipal bond market. First, the program offers issuers of municipal bonds access to a new investor segment — the buyers of taxable bonds. These buyers differ significantly from the traditional purchasers of tax-exempt bonds, such as insurance companies, tax-exempt bond mutual funds and money market funds, trust departments and individuals. Taxable bond buyers focus more on liquidity and the ability to trade the bonds they purchase. They include taxable bond funds, total-return asset funds, pension funds, nonprofit corporations and depository institutions.

Second, the large volume of BABs has raised concern among tax-exempt investors about the near-term supply of traditional tax-exempt bonds. In fact, after the first large issuances of BABs, the tax-exempt bond market rallied significantly in anticipation of reduced future supply of tax-exempt bonds. This drove tax-exempt interest rates significantly lower.

[Please note: In addition to direct subsidy, the BABs program gives issuers the option of providing investors a tax credit on the bonds. But to date, issuers have not used that option.]

THE STATE'S BONDS

As a result of the extraordinary events of the past year, yields on the State's tax-exempt and taxable GO bonds have fluctuated along with yields in the broader municipal market. In addition, investor perception of the State's creditworthiness and declines in the State's credit ratings have affected the relative pricing of the State's GO bonds.

Yields on the State's 30-year tax-exempt GO bonds rose from 5.12 percent at the beginning of fiscal 2007-08 to a high of 6.76 percent during the financial crisis. But the yields declined back to 5.10 percent as of September 18, 2009. By comparison, over the same period, yields on 30-year municipal GO bond rated triple-A rose from 4.69 percent to a high of 5.81 percent, then dropped back down to 4.06 percent. That means the spread between yields on the State's GO bonds and triple-A municipal GO bonds increased from 43 basis points to 95 basis points, then fell back down to 71 basis points.

Like other issuers, the State has seen the yield spread between its BABs and U.S. Treasuries narrow as the BABs market has matured. Similar to the tax-exempt market, changes to the State's credit ratings and investor perception of the State's creditworthiness have affected the pricing of these State bonds. The spreads to long-term U.S. Treasury yields for the State's BABs declined from approximately 335 basis points after the initial offering in April 2009 to about 275 basis points on September 18, 2009.

Section 4: Snapshot of State's Debt

OVERVIEW

Figure 8 summarizes the State's General Fund-backed debt as of July 1, 2009. This debt includes GO bonds approved by voters and lease revenue bonds authorized by the Legislature. The numbers include both bonds the State already has sold (outstanding) and bonds authorized but not yet sold. A detailed list of the State's outstanding General Fund-backed bonds, and their debt service requirements, can be found in Appendices A and B.

- Approximately 10.5 percent of all GO bonds carry variable interest rates. The law allows up to 20 percent of GO bonds to be variable rate. The remaining 89.5% of the State's GO bonds have fixed interest rates.
- The State has no interest rate hedging contracts on its GO bonds.

The State in 2008-09 issued $13.93 billion of GO bonds and $641.97 million of lease revenue bonds. That compares to $7.35 billion of GO bonds and $489.7 million of lease revenue bonds in 2007-08. Figure 9 provides information on those issuances, including: amount issued for new projects; total interest costs for the new issuances; federal BABs subsidy; and true interest cost.

The GO bonds issued in 2008-09 financed new projects to build educational facilities, roads, housing and other infrastructure, and to conduct stem cell research. Figure 10 breaks down the issuances by program area.

FIGURE 8

SUMMARY OF THE STATE'S DEBT
(AS OF JULY 1, 2009)
(DOLLARS IN BILLIONS)

	OUTSTANDING	AUTHORIZED, BUT UNISSUED	TOTAL
General Obligation*	$59.04	$53.38	$112.42
Lease Revenue	8.05	11.31	19.36
Total	$67.09	$64.70	$131.79

* Excludes self-liquidating Economic Recovery Bonds and Veterans GO Bonds

INTENDED ISSUANCE OF GENERAL FUND-BACKED BONDS

The STO bases intended issuance estimates on prior spending patterns and expenditure projections provided by DOF and State departments. The estimates are subject to change. Figure 11 shows intended issuances over the next two fiscal years of General Fund-backed bonds. These 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 General Fund. Also excluded are all types of "conduit" bonds, such as those issued by financing authorities on behalf of

FIGURE 9

GO BONDS AND LRB SALES
FOR THE 2008-09 FISCAL YEAR
(DOLLARS IN MILLIONS)

	NEW MONEY PAR	TOTAL INTEREST	BABs SUBSIDY	NET INTEREST	TRUE INTEREST COST [(a)]
February-09 GO	$194.0	$ 162.6	$ -	$162.6	3.339816%
March-09 GO	6,543.0	7,403.2	-	7,403.2	5.832910%
March-09 GO	132.9	127.8	44.7	83.0	2.450500%
April-09 GO[(b)]	6,855.0	11,063.7	3,698.6	7,365.1	4.926535%
April-09 PWB LRB (Various Depts)	435.1	417.2	-	417.2	6.082140%
April-09 PWB LRB (UC)	206.8	155.1	-	155.1	4.742599%
May-09 GO	193.5	162.0	-	162.0	3.300141%
May-09 GO	16.6	10.5	-	10.5	3.180193%
Total[(c)]	$14,576.9	$19,502.1	$3,743.3	$15,785.57	

[(a)] True Interest Cost assumes 35% Federal Build America Bonds Subsidy.
[(b)] Consist of $5.228 billion of Build America Bonds and $1.62 billion of taxable bonds.
[(c)] Totals may not add due to rounding.

FIGURE 10

BONDS ISSUED FOR NEW PROJECTS
BY PROGRAM AREA (GO BONDS ONLY)
(DOLLARS IN MILLIONS)

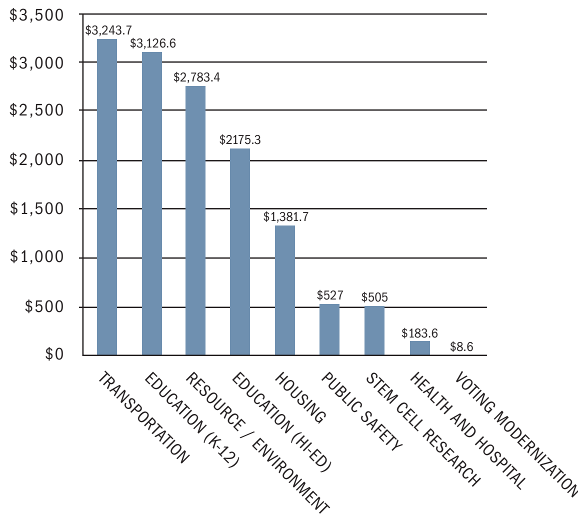


FIGURE 11

INTENDED ISSUANCES
GENERAL FUND-SUPPORTED BONDS
(DOLLARS IN MILLIONS)

	2009-10	2010-11	TOTAL
General Obligation	$13,433	$10,870	$24,303
Lease Revenue	$1,670	$1,646	$3,316
Total	$15,103	$12,516	$27,619

other governmental or private entities whose obligations secure these bonds.

Only currently authorized but unissued GO bonds are reflected in Figure 11's numbers. The intended issuances may increase should new bond programs be approved.

As shown in Figure 11, the State intends to issue $27.62 billion of General Fund-backed bonds in 2009-10 and 2010-11. The STO estimates this issuance will increase debt service payments from the General Fund by $260 million in 2009-10 and $1.34 billion in 2010-11.

Section 5: Measuring Debt Burden

DEBT RATIOS

Measuring California's debt level with various ratios — while not particularly helpful in assessing debt affordability — does provide a way to compare the State's burden to those of other borrowers. The three most commonly-used ratios are: debt service as a percentage of General Fund revenues; debt as a percentage of personal income; and 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 5.76 percent in 2008-09. That's based on $4.85 billion in combined GO and lease revenue bond debt service payments versus $84.10 billion in General Fund revenues. This ratio is projected to be 6.71 percent for 2009-10, based on $6.01 billion in debt service payments versus $89.54 billion in General Fund revenues as projected by the DOF.[3]

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 because it provides one indicator of a state's ability to generate revenues. In its 2009 State Debt Medians report, Moody's lists California's ratio of net tax-supported debt to personal income at 4.4 percent.[4]

DEBT PER CAPITA

Debt per capita measures residents' average share of a state's total outstanding debt. It does not account for the employment status, income or financial resources of residents. As a result, debt per capita does not

[3] This projected ratio reflects debt service from only a portion of the bond sales listed in Figure 11 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, $7 billion of the $13.4 billion in GO bonds planned for fiscal year 2009-10 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 $6.4 billion in GO bonds will not have a debt service payment during the 2009-10 fiscal year and will therefore not affect the ratio. The lease revenue bond sales planned for the Spring of fiscal year 2009-10 also are not expected to have any net debt service payments during fiscal year 2009-10.

[4] Moody's calculation of net tax-supported debt includes outstanding GO bonds (non self-liquidating), LRBs, ERBs, GO commercial paper notes, federal Highway Grant Anticipation Bonds, Tobacco Securitization Bonds with a General fund backstop, California Judgment Trust Obligations, and the Bay Area Infrastructure Financing Authority's State payment acceleration notes.

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 its 2009 State Debt Medians report, Moody's lists California's debt per capita at $1,805.

California's Debt Levels Compared to Other Large States

Moody's calculates the ratios of debt to personal income and debt per capita for each state and publishes an annual report containing the median ratios (State Debt Medians report). It's useful to compare California's debt levels with those of its "peer group" of the 10 most populous states. As shown in Figure 12, the debt ratios of these 10 states are, on average, higher than the Moody's median for all states combined. California's ratios of debt to personal income and debt per capita rank well above the medians for the 10 most populous states.

FIGURE 12

DEBT RATIOS OF THE 10 MOST POPULOUS STATES RANKED BY RATIO OF DEBT TO PERSONAL INCOME

STATE	MOODY'S/ S&P/FITCH[a]	DEBT TO PERSONAL INCOME [b]	DEBT PER CAPITA [b]
Texas	Aa1/AA+/AA+	1.4%	$520
Michigan	Aa3/AA-/A+	2.2%	$766
Pennsylvania	Aa2/AA/AA	2.5%	$950
Ohio	Aa2/AA+/AA	2.8%	$962
Florida	Aa1/AAA/AA+	2.9%	$1,115
Georgia	Aaa/AAA/AAA	3.0%	$984
California	*Baa1/A/BBB*	4.4%	$1,805
Illinois	A1/AA-/A	4.6%	$1,877
New York	Aa3/AA/AA-	6.3%	$2,921
New Jersey	Aa3/AA/AA-	7.3%	$3,621
Moody's Median all States		2.5%	$865
Median for the 10 most populous States		3.7%	$1,552

[a] Moody's Investors Service, Standard & Poors, and Fitch Ratings, as of September 2009. [b] Figures as reported by Moody's Investors Services in their 2009 State Debt Medians report released July 2009.

Section 6: Analysis of State's Credit Ratings

The State's current GO bond ratings are 'BBB' from Fitch, 'Baa1' from Moody's and 'A' from Standard & Poor's (S&P). These ratings are significantly lower than the GO bond ratings of all other states. Over the past year, the rating agencies took action on the State's ratings in February, March and July, as shown in Figure 13. In each case, the rating downgrades were based largely on structural budget difficulties, the economic downturn (and corresponding impact on revenues) and cash flow weakness. The downgrades were not a result of debt levels or debt affordability.

THE STATE'S CREDIT FUNDAMENTALS

As continually stated by the agencies, the State's rating benefits from California's large and diverse economy and associated revenue base. The State continues to have positive net migration, income growth and diversification. After many months of severe global economic downturn, the rating agencies have observed a general economic stabilization that is expected to help the State's overall fiscal recovery.

FIGURE 13

RATING ACTIONS IN 2009

RATING AGENCY	ACTION	DATE
S&P	Lowered GO Rating from 'A+' to 'A'	February
Fitch	Lowered GO Rating from 'A+' to 'A'	March
Moody's	Lowered GO Rating from 'A1' to 'A2'	March
Fitch	Lowered GO Rating from 'A' to 'A-'	June
Moody's	Lowered GO Rating from 'A2' to 'Baa1'	July
Fitch	Lowered GO Rating from 'A-' to 'BBB'	July

Still, analysts consistently have noted that the majority of State revenues — most notably the personal income tax — are highly dependent on economic conditions and, as a result, subject to the volatility of economic cycles. This creates an ongoing fiscal problem if during periods of economic strength, spending increases rapidly and cannot be structurally contained during periods of economic contraction. The State's dependence on income taxes, including the capital gains tax, and sales taxes increases budget pressures during periods of economic weakness — especially if spending is not properly managed during boom times. In addition, the State's use of one-time budget solutions continues to concern the rating agencies.

As cited below, rating agencies express concern about constitutional provisions — often called "institutional challenges" — that limit budget flexibility. These provisions include the initiative process and the two-thirds majority required for legislative approval of the budget.

Standard & Poor's

> *"Numerous constitutional provisions that separate California from most other states in the conduct of its budget and financial management complicate the budget situation for lawmakers. Significant constitutional requirements reduce legislative discretion over general fund spending and require what we consider unusual levels of political consensus to affect tax increases or to pass budget laws." (August 21, 2009)*

Moody's

> *"California has significantly less flexibility relative to other states when it comes to budgeting and revenue raising. Approval by two-thirds of the legislature is required to pass a budget, and to raise revenues. In a year when revenues are underperforming, the governor does not have the power to order spending cuts or to raise revenues without the consent of the legislature. The state revises its revenue forecasts less frequently than many states, giving it less time to catch up to a downturn. The state has voter initiatives and referenda, processes which have tied up spending flexibility. Contentious political debates slow state reaction to budgetary stresses. Finally, voter approval is required to issue general obligation bonds or deficit bonds." (August 21, 2009)*

Fitch

> *"Effective budget-making is hampered by inflexibility imposed by voter initiatives, and the state has a history of inability to achieve consensus when faced with financial challenges." (March 24, 2009)*

The State's security provisions and legal fundamentals for GO debt are considered strong, as highlighted below. The State has ample controls, and GO debt service ranks second in the State's priority payment structure. Only public schools have a higher claim than debt service on General Fund monies. The State has an obligation and the authority to pay GO debt service whether or not the State has a budget in place.

Standard & Poor's

> *"As a state government, California enjoys what we view as a relatively high level of control over certain administrative aspects of its cash flows. We reflect our view of this inherent credit strength in our rating on the state's debt and throughout the state sector generally. We recognize that the state constitution grants important authority to independently elected officers, including the state controller, to manage cash resources and to protect priority claims on general fund cash, such as those for education and debt service." (August 21, 2009)*

Moody's

> *"At the same time, it is important to note that the state has many tools available to it, to balance some of these weaknesses. Despite the fact that general obligation debt service is second in the state's hierarchy of priority payments when most states pay general obligation debt service first, the likelihood of bond repayment is very high due to the fact that many lower priority expenses are in a first-loss position if the budget were not to be adjusted sufficiently to reflect underperforming revenues. The state has the ability, if it has the willingness, to make expenditure cuts and raise taxes to increase revenues when times are difficult, and to borrow cash from other funds to ease cash-flow difficulties. Further, the state has the ability to transfer some of its problems to lower levels of government, through cuts or through borrowing some of their tax revenues." (August 21, 2009)*

Despite the State's current credit ratings, investor demand for the State's bonds remains ample, as evidenced by recent issuances. The current ratings, unfortunately, will increase the cost of borrowing in the near-term. But by eliminating "one-time" budgetary solutions, and working toward and achieving structural budget balance, the State could significantly benefit its credit status. Further, the agencies would react positively to a strengthening of the State's current cash position. In short, policymakers have the tools to manage expenditures, revenues and reserve levels in ways that will improve the State's rating and reduce its borrowing costs.

Appendix A: The State's Debt

STATE OF CALIFORNIA
OUTSTANDING AND AUTHORIZED BUT UNISSUED BONDS
AS OF JULY 1, 2009
($ THOUSANDS)

LEASE REVENUE BONDS	BONDS OUTSTANDING	AUTHORIZED BUT UNISSUED
UNIVERSITY OF CALIFORNIA (a)	$ 2,145,865	$ 281,632
CALIFORNIA STATE UNIVERSITY	545,820	327,920
CALIFORNIA COMMUNITY COLLEGES	533,550	—
DEPARTMENT OF CORRECTIONS AND REHABILITATION (b)	1,926,262	8,084,247
STATE BUILDINGS (c)	2,313,060	2,618,188
ENERGY EFFICIENCY REVENUE BONDS (d)	14,270	—
TOTAL LEASE REVENUE BONDS	$ 7,478,827	$ 11,311,987

(a) The Regents' obligations to the State Public Works Board are payable from lawfully available funds of The Regents which are held in The Regents' treasury funds are separate from the State General Fund. A portion of The Regents' annual budget is derived from General Fund appropriations.
(b) Includes the initial value of capital appreciation bonds rather than the accreted value.
(c) Includes $277 Million Appropriated for the FI$Cal project
(d) This program is self-liquidating based on energy cost savings.

STATE OF CALIFORNIA
OUTSTANDING AND AUTHORIZED BUT UNISSUED SPECIAL REVENUE FUND BONDS (SELF LIQUIDATING)
AS OF JULY 1, 2009
($ THOUSANDS)

SPECIAL REVENUE FUND BONDS	BONDS OUTSTANDING	AUTHORIZED BUT UNISSUED
ECONOMIC RECOVERY BOND ACT	8,223,450	—

STATE OF CALIFORNIA
AUTHORIZED AND OUTSTANDING GENERAL OBLIGATION BONDS
AS OF JULY 1, 2009 ($ 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	$ 207,965	$ 2,255
1990 SCHOOL FACILITIES BOND ACT	6/5/1990	800,000	256,665	2,125
1992 SCHOOL FACILITIES BOND ACT	11/3/1992	900,000	429,389	1,789
CALIFORNIA CLEAN WATER, CLEAN AIR, SAFE NEIGHBORHOOD PARKS, AND COASTAL PROTECTION ACT OF 2002	3/5/2002	2,600,000	1,746,515	820,550
CALIFORNIA LIBRARY CONSTRUCTION AND RENOVATION BOND ACT OF 1988	11/8/1988	75,000	30,540	2,595
CALIFORNIA PARK AND RECREATIONAL FACILITIES ACT OF 1984	6/5/1984	370,000	40,440	1,100
CALIFORNIA PARKLANDS ACT OF 1980	11/4/1980	285,000	8,465	—
CALIFORNIA READING AND LITERACY IMPROVEMENT AND PUBLIC LIBRARY CONSTRUCTION AND RENOVATION BOND ACT OF 2000	3/7/2000	350,000	244,090	77,430
CALIFORNIA SAFE DRINKING WATER BOND LAW OF 1976	6/8/1976	175,000	14,110	2,500
CALIFORNIA SAFE DRINKING WATER BOND LAW OF 1984	11/6/1984	75,000	7,870	—
CALIFORNIA SAFE DRINKING WATER BOND LAW OF 1986	11/4/1986	100,000	38,300	—
CALIFORNIA SAFE DRINKING WATER BOND LAW OF 1988	11/8/1988	75,000	36,175	6,960
CALIFORNIA WILDLIFE, COASTAL, AND PARK LAND CONSERVATION ACT	6/7/1988	776,000	229,405	7,330
CHILDREN'S HOSPITAL BOND ACT OF 2004	11/2/2004	750,000	418,285	327,225
CHILDREN'S HOSPITAL BOND ACT OF 2008	11/4/2008	980,000	—	980,000
CLASS SIZE REDUCTION KINDERGARTEN-UNIVERSITY PUBLIC EDUCATION FACILITIES BOND ACT OF 1998 (HI-ED)	11/3/1998	2,500,000	2,203,170	13,600
CLASS SIZE REDUCTION KINDERGARTEN-UNIVERSITY PUBLIC EDUCATION FACILITIES BOND ACT OF 1998 (K-12)	11/3/1998	6,700,000	5,339,880	11,860
CLEAN AIR AND TRANSPORTATION IMPROVEMENT BOND ACT OF 1990	6/5/1990	1,990,000	1,057,655	177,390
CLEAN WATER BOND LAW OF 1970	11/3/1970	250,000	1,000	—
CLEAN WATER BOND LAW OF 1974	6/4/1974	250,000	2,515	—
CLEAN WATER BOND LAW OF 1984	11/6/1984	325,000	28,870	—
CLEAN WATER AND WATER CONSERVATION BOND LAW OF 1978	6/6/1978	375,000	9,740	—
CLEAN WATER AND WATER RECLAMATION BOND LAW OF 1988	11/8/1988	65,000	34,835	—
COMMUNITY PARKLANDS ACT OF 1986	6/3/1986	100,000	13,770	—
COUNTY CORRECTIONAL FACILITY CAPITAL EXPENDITURE BOND ACT OF 1986	6/3/1986	495,000	78,205	—
COUNTY CORRECTIONAL FACILITY CAPITAL EXPENDITURE AND YOUTH FACILITY BOND ACT OF 1988	11/8/1988	500,000	181,360	—
COUNTY JAIL CAPITAL EXPENDITURE BOND ACT OF 1981	11/2/1982	280,000	2,650	—
COUNTY JAIL CAPITAL EXPENDITURE BOND ACT OF 1984	6/5/1984	250,000	150	—
DISASTER PREPAREDNESS AND FLOOD PREVENTION BOND ACT OF 2006	11/7/2006	4,090,000	503,380	3,586,345
EARTHQUAKE SAFETY AND PUBLIC BUILDINGS REHABILITATION BOND ACT OF 1990	6/5/1990	300,000	189,685	14,735
FISH AND WILDLIFE HABITAT ENHANCEMENT ACT OF 1984	6/5/1984	85,000	10,720	—
HIGHER EDUCATION FACILITIES BOND ACT OF 1986	11/4/1986	400,000	11,900	—
HIGHER EDUCATION FACILITIES BOND ACT OF 1988	11/8/1988	600,000	125,920	10,440
HIGHER EDUCATION FACILITIES BOND ACT OF JUNE 1990	6/5/1990	450,000	141,480	2,110
HIGHER EDUCATION FACILITIES BOND ACT OF JUNE 1992	6/2/1992	900,000	490,170	7,235
HIGHWAY SAFETY, TRAFFIC REDUCTION, AIR QUALITY, AND PORT SECURITY BOND ACT OF 2006	11/7/2006	19,925,000	4,480,125	15,428,395
HOUSING AND EMERGENCY SHELTER TRUST FUND ACT OF 2002	11/5/2002	2,100,000	1,434,775	592,115
HOUSING AND EMERGENCY SHELTER TRUST FUND ACT OF 2006	11/7/2006	2,850,000	563,505	2,286,495
HOUSING AND HOMELESS BOND ACT OF 1990	6/5/1990	150,000	4,225	—
KINDERGARTEN-UNIVERSITY PUBLIC EDUCATION FACILITIES BOND ACT OF 2002 (HIGHER EDUCATION)	11/5/2002	1,650,000	1,583,235	14,635

STATE OF CALIFORNIA
AUTHORIZED AND OUTSTANDING GENERAL OBLIGATION BONDS
AS OF JULY 1, 2009 ($ THOUSANDS) CONTINUED

GENERAL FUND BONDS (NON-SELF LIQUIDATING)	VOTER AUTHORIZATION DATE	VOTER AUTHORIZATION AMOUNT	BONDS OUTSTANDING (a)	AUTHORIZED BUT UNISSUED (b)
KINDERGARTEN-UNIVERSITY PUBLIC EDUCATION FACILITIES BOND ACT OF 2002 (K-12)	11/5/2002	11,400,000	9,948,555	920,815
KINDERGARTEN-UNIVERSITY PUBLIC EDUCATION FACILITIES BOND ACT OF 2004 (HI-ED)	3/2/2004	2,300,000	1,968,230	304,835
KINDERGARTEN-UNIVERSITY PUBLIC EDUCATION FACILITIES BOND ACT OF 2004 (K–12)	3/2/2004	10,000,000	7,572,605	2,272,470
KINDERGARTEN-UNIVERSITY PUBLIC EDUCATION FACILITIES BOND ACT OF 2006 (HI-ED)	11/7/2006	3,087,000	1,556,785	1,529,125
KINDERGARTEN-UNIVERSITY PUBLIC EDUCATION FACILITIES BOND ACT OF 2006 (K–12)	11/7/2006	7,329,000	2,214,985	5,108,720
LAKE TAHOE ACQUISITIONS BOND ACT	8/2/1982	85,000	7,365	—
NEW PRISON CONSTRUCTION BOND ACT OF 1986	11/4/1986	500,000	37,190	—
NEW PRISON CONSTRUCTION BOND ACT OF 1988	11/8/1988	817,000	189,255	4,630
NEW PRISON CONSTRUCTION BOND ACT OF 1990	6/5/1990	450,000	123,215	1,890
PASSENGER RAIL AND CLEAN AIR BOND ACT OF 1990	6/5/1990	1,000,000	332,280	—
PUBLIC EDUCATION FACILITIES BOND ACT OF 1996 (HIGHER EDUCATION)	3/26/1996	975,000	698,830	37,465
PUBLIC EDUCATION FACILITIES BOND ACT OF 1996 (K–12)	3/26/1996	2,025,000	1,350,765	12,965
SAFE DRINKING WATER, CLEAN WATER, WATERSHED PROTECTION, AND FLOOD PROTECTION ACT	3/7/2000	1,970,000	1,390,955	435,255
SAFE DRINKING WATER, WATER QUALITY AND SUPPLY, FLOOD CONTROL, RIVER AND COASTAL PROTECTION BOND ACT OF 2006	11/7/2006	5,388,000	995,425	4,391,875
SAFE NEIGHBORHOOD PARKS, CLEAN WATER, CLEAN AIR, AND COASTAL PROTECTION BOND ACT OF 2000	3/7/2000	2,100,000	1,651,730	244,285
SAFE, CLEAN, RELIABLE WATER SUPPLY ACT	11/5/1996	995,000	730,190	137,665
SAFE, RELIABLE HIGH-SPEED PASSENGER TRAIN BOND ACT FOR THE 21ST CENTURY	11/4/2008	9,950,000	90,045	9,859,955
SCHOOL BUILDING AND EARTHQUAKE BOND ACT OF 1974	11/5/1974	40,000	22,645	—
SCHOOL FACILITIES BOND ACT OF 1988	6/7/1988	800,000	129,570	—
SCHOOL FACILITIES BOND ACT OF 1990	11/6/1990	800,000	325,265	—
SCHOOL FACILITIES BOND ACT OF 1992	6/2/1992	1,900,000	898,195	10,305
SEISMIC RETROFIT BOND ACT OF 1996	3/26/1996	2,000,000	1,581,170	7,960
STATE SCHOOL BUILDING LEASE-PURCHASE BOND LAW OF 1984	11/6/1984	450,000	8,750	—
STATE SCHOOL BUILDING LEASE-PURCHASE BOND LAW OF 1986	11/4/1986	800,000	48,650	—
STATE, URBAN, AND COASTAL PARK BOND ACT OF 1976	11/2/1976	280,000	7,430	—
STEM CELL RESEARCH AND CURES ACT OF 2004	11/2/2004	3,000,000	755,000	2,245,000
VETERANS HOMES BOND ACT OF 2000	3/7/2000	50,000	39,935	9,985
VOTING MODERNIZATION BOND ACT OF 2002	3/5/2002	200,000	81,855	64,825
WATER CONSERVATION BOND LAW OF 1988	11/8/1988	60,000	29,510	8,785
WATER CONSERVATION AND WATER QUALITY BOND LAW OF 1986	6/3/1986	150,000	49,110	21,185
WATER SECURITY, CLEAN DRINKING WATER, COASTAL AND BEACH PROTECTION ACT OF 2002	11/5/2002	3,440,000	2,001,135	1,376,470
TOTAL GENERAL FUND BONDS		$ 131,032,000	$ 59,037,759	$ 53,383,619

(a) Includes the initial value of capital appreciation bonds rather than the accreted value.

(b) A portion of unissued bonds may be issued initially in the form of commercial paper notes, as authorized from time to time by the respective Finance Committees. A total of not more than $2.5 billion of commercial paper principal plus accrued interest may be owing at one time. See "STATE INDEBTEDNESS AND OTHER OBLIGATIONS — Capital Facilities Financing – Commercial Paper Program" above. Bond acts marked with an asterisk (*) are not legally permitted to utilize commercial paper.

SOURCE: State of California, Office of the Treasurer.

Appendix B: The State's Debt Service

STATE OF CALIFORNIA
OUTSTANDING DEBT SERVICE REQUIREMENTS
LEASE REVENUE BONDS
AS OF JULY 1, 2009

FISCAL YEAR ENDING JUNE 30	INTEREST	PRINCIPAL (a)	TOTAL
2010	402,260,437	432,641,634	834,902,071 (b)
2011	379,584,210	448,675,000	828,259,210
2012	357,789,457	436,820,000	794,609,457
2013	336,286,857	449,180,000	785,466,857
2014	313,828,106	456,725,000	770,553,106
2015	290,589,743	478,860,000	769,449,743
2016	266,559,761	466,465,000	773,024,761
2017	242,681,568	476,145,000	718,826,568
2018	218,719,720	493,910,000	712,629,720
2019	194,132,576	459,480,000	653,612,576
2020	171,029,774	436,720,000	607,749,774
2021	150,163,590	381,440,000	531,603,590
2022	130,708,777	359,995,000	490,703,777
2023	113,680,904	316,380,000	430,060,904
2024	98,351,961	238,070,000	336,421,961
2025	86,207,624	250,220,000	336,427,624
2026	73,901,281	244,760,000	318,661,281
2027	61,308,200	257,305,000	318,613,200
2028	48,128,099	254,800,000	302,928,099
2029	35,747,551	199,800,000	235,547,551
2030	25,601,782	172,905,000	198,506,782
2031	17,257,384	121,785,000	139,042,384
2032	11,565,953	96,115,000	107,680,953
2033	6,695,600	75,615,000	82,310,600
2034	2,735,335	46,195,000	48,930,338
TOTAL	$4,035,516,253	$8,051,006,634	$ 12,086,522,887

(a) Includes scheduled mandatory sinking fund payments

(b) Total represents the remaining debt service requirements from August 1,2009 through June 30, 2010.

SOURCE: State of California, Office of the Treasurer.

STATE OF CALIFORNIA
OUTSTANDING DEBT SERVICE REQUIREMENTS
GENERAL OBLIGATION BONDS (FIXED RATE)
AS OF JULY 1, 2009

FISCAL YEAR ENDING JUNE 30	INTEREST	PRINCIPAL (a)	TOTAL
2010	2,847,291,826	1,973,460,000	4,820,751,826 (b)
2011	2,779,877,700	1,982,599,045	4,762,476,745
2012	2,670,699,346	1,790,030,000	4,460,729,346
2013	2,583,521,743	1,599,315,000	4,182,836,743
2014	2,507,083,016	2,031,410,000	4,538,493,016
2015	2,410,630,160	2,021,360,000	4,431,990,160
2016	2,310,049,508	1,741,530,000	4,051,579,508
2017	2,221,899,308	1,334,955,000	3,556,854,308
2018	2,157,548,160	1,436,410,000	3,593,958,160
2019	2,083,909,011	1,457,085,000	3,540,994,011
2020	2,009,235,307	1,520,430,000	3,529,665,307
2021	1,934,782,426	1,457,300,000	3,392,082,426
2022	1,861,358,232	1,584,310,000	3,445,668,232
2023	1,781,883,529	1,734,865,000	3,516,748,529
2024	1,694,801,577	1,654,860,000	3,349,661,577
2025	1,610,192,252	1,851,605,000	3,461,797,252
2026	1,516,395,342	1,803,025,000	3,319,420,342
2027	1,418,477,386	1,861,215,000	3,279,692,386
2028	1,325,651,611	1,974,765,000	3,300,416,611
2029	1,229,519,864	1,946,615,000	3,176,134,864
2030	1,131,791,408	2,132,425,000	3,264,216,408
2031	1,024,793,952	1,959,550,000	2,984,343,952
2032	927,227,330	2,187,775,000	3,115,002,330
2033	812,059,170	2,135,250,000	2,947,309,170
2034	697,461,024	3,387,935,000	4,085,396,024
2035	487,066,739	1,500,220,000	1,987,286,739
2036	408,048,843	1,440,460,000	1,848,508,843
2037	337,800,798	1,236,365,000	1,574,165,798
2038	276,343,036	942,890,000	1,219,233,036
2039	228,967,238	3,093,990,000	3,322,957,238
TOTAL	$47,286,366,839	$54,774,004,045	$ 102,060,370,884

(a) Includes scheduled mandatory sinking fund payments.

(b) The amounts do not reflect any interest subsidy under the Build America Bonds program. The Federal Subsidy payment is estimated to be between $83.4 million and $136.3 million, annually, over the life of the bonds.

(c) Total represents the remaining debt service requirements from August 1, 2009 through June 30, 2010.

SOURCE: STATE OF CALIFORNIA, OFFICE OF THE TREASURER.

STATE OF CALIFORNIA
OUTSTANDING DEBT SERVICE REQUIREMENTS
GENERAL OBLIGATION BONDS (VARIABLE RATE)
AS OF JULY 1, 2009

FISCAL YEAR ENDING JUNE 30	INTEREST (a)	PRINCIPAL (b)	TOTAL (c)
2010	67,419,004	—	67,419,004 (d)
2011	70,678,314	—	70,678,314
2012	70,682,510	—	70,682,510
2013	70,705,680	—	70,705,680
2014	70,638,305	—	70,638,305
2015	70,638,305	—	70,638,305
2016	70,682,469	53,650,000	124,332,469
2017	70,356,363	354,920,000	425,276,363
2018	68,319,469	457,795,000	526,114,469
2019	65,737,738	222,025,000	287,762,738
2020	64,494,654	212,775,000	277,269,654
2021	63,477,838	166,775,000	230,252,838
2022	63,165,347	79,650,000	142,815,347
2023	62,975,343	101,650,000	164,625,343
2024	62,742,267	277,700,000	340,442,267
2025	62,181,861	181,600,000	243,781,861
2026	62,791,557	325,675,000	387,466,557
2027	61,195,607	53,100,000	114,295,607
2028	61,068,263	55,200,000	116,268,263
2029	60,268,658	120,400,000	180,668,658
2030	57,930,109	159,040,000	216,970,109
2031	54,639,011	162,265,000	216,904,011
2032	51,345,878	165,715,000	217,060,878
2033	48,042,845	169,015,000	217,057,845
2034	44,755,883	78,640,000	123,395,883
2035	41,673,503	77,040,000	118,713,503
2036	38,593,988	77,040,000	115,633,988
2037	35,514,389	77,040,000	112,554,389
2038	32,434,874	77,040,000	109,474,874
2039	30,001,331	557,005,000	587,006,331
2040	5,932	1,000,000	1,005,932
TOTAL	$ 1,754,157,296	$4,263,755,000	$ 6,017,912,296

(a) The estimate of future interest payments is based on rates in effect as of July 1, 2009. The interest rates for the daily, weekly and auction rate bonds range from .08 - 4.50%. The 2007 and 2009 Stem Cell bonds, 2009A, 2009B and 2009C Highway Safety, Traffic Reduction, Air Quality and Port Security bonds, and the 2009A Solano County Private Placement bonds currently bear interest at fixed rates of 5.168%, 5.65%, 3.34%, 3.77%, 3.30% and 3.18%, respectively, until reset date, and are assumed to bear those rates from reset until maturity.

(b) Includes scheduled mandatory sinking fund payments, the 2007 and 2009 Stem Cell Bonds, the Series 2009A, 2009B and 2009C of the Highway Safety, Traffic Reduction, Air Quality and Port Security Bonds and the 2009A Solano County Private Placement bonds.

(c) The amounts do not reflect any interest subsidy under the Build America Bonds Program.

(d) Total represents the remaining estimated debt service requirements from August 1, 2009 through June 30, 2010.

SOURCE: State of California, Office of the Treasurer.

STATE OF CALIFORNIA
SCHEDULE OF DEBT SERVICE REQUIREMENTS
FOR SPECIAL REVENUE FUND SELF LIQUIDATING BONDS
(ECONOMIC RECOVERY BONDS)
(FIXED RATE) AS OF JULY 1, 2009

FISCAL YEAR ENDING JUNE 30	INTEREST	PRINCIPAL (a)	TOTAL
2010	130,025,421.98	392,635,000.00	522,660,421.98 (b)
2011	230,308,250.00	914,480,000.00	1,144,788,250.00
2012	184,501,985.00	486,565,000.00	671,066,985.00
2013	158,148,415.00	603,520,000.00	761,668,415.00
2014	127,236,935.00	606,870,000.00	734,106,935.00
2015	95,284,431.77	636,645,000.00	731,929,431.77
2016	61,438,235.00	702,140,000.00	763,578,235.00
2017	32,788,530.00	451,820,000.00	484,608,530.00
2018	10,837,612.50	438,250,000.00	449,087,612.50
2019	67,500.00	—	67,500.00
2020	67,500.00	—	67,500.00
2021	67,500.00	—	67,500.00
2022	67,500.00	—	67,500.00
2023	67,500.00	—	67,500.00
2024	33,750.00	1,500,000.00	1,533,750.00
TOTAL	$1,030,941,066.25	$5,234,425,000.00	$6,265,366,066.25

(a) Includes scheduled mandatory sinking fund payments.

(b) Total represents the remaining estimated debt service requirements from August 1, 2009 through June 30, 2010.

SOURCE: State of California, Office of the Treasurer.

STATE OF CALIFORNIA
SCHEDULE OF DEBT SERVICE REQUIREMENTS
FOR SPECIAL REVENUE FUND SELF LIQUIDATING BONDS
(ECONOMIC RECOVERY BONDS)
(VARIABLE RATE) AS OF JULY 1, 2009

FISCAL YEAR ENDING JUNE 30	INTEREST (a)	PRINCIPAL (b)	TOTAL
2010	99,242,782.30	—	99,242,782.30 (c)
2011	83,890,224.00	—	83,890,224.00
2012	65,882,606.27	242,270,000.00	308,152,606.27
2013	51,116,629.18	524,105,000.00	575,221,629.18
2014	35,512,488.28	584,260,000.00	619,772,488.28
2015	18,393,655.78	561,870,000.00	580,263,655.78
2016	6,700,109.52	—	6,700,109.52
2017	6,678,838.48	—	6,678,838.48
2018	6,689,474.00	—	6,689,474.00
2019	5,258,593.93	388,925,000.00	394,183,593.93
2020	2,892,821.98	56,035,000.00	58,927,821.98
2021	1,989,467.27	401,185,000.00	403,174,467.27
2022	161,111.58	226,625,000.00	226,786,111.58
2023	62,225.00	—	62,225.00
2024	26,098.80	3,750,000.00	3,776,098.80
TOTAL	$384,497,126.25	$2,989,025,000.00	$3,373,522,126.35

(a) The estimate of future interest payments is based on rates in effect as of July 1, 2009. The interest rates for the daily and weekly rate bonds range from .12 - 1.00%. The series 2008B Economic Recovery bonds bear interest at fixed rates ranging from 3.00-5.00% until reset date, and are assumed to bear interest at the rate of 2.87% from each reset date to maturity

(b) Includes scheduled mandatory sinking fund payments.

(c) Total represents the remaining estimated debt service requirements from August 1, 2009 through June 30, 2010.

SOURCE: State of California, Office of the Treasurer.

STATE OF CALIFORNIA
ESTIMATED DEBT SERVICE REQUIREMENTS ON INTENDED SALES OF AUTHORIZED BUT UNISSUED BONDS DURING FISCAL YEARS 2009–10 AND 2010–11

FISCAL YEAR ENDING JUNE 30	FY 2009-10 GO SALES DEBT SERVICE	FY 2010-11 GO SALES DEBT SERVICE	FY 2009-10 LRB SALES DEBT SERVICE	FY 2010-11 LRB SALES DEBT SERVICE	TOTAL DEBT SERVICE ALL SALES
2010	210,000,000	—	51,980,738	—	261,980,738
2011	970,486,600	188,736,600	139,858,181	34,124,288	1,333,205,669
2012	970,483,700	784,848,550	139,858,419	136,962,725	2,032,153,394
2013	970,485,100	784,849,500	139,863,338	136,961,575	2,032,159,513
2014	970,482,850	784,847,350	139,863,188	136,960,044	2,032,153,431
2015	970,486,750	784,851,200	139,858,419	136,959,356	2,032,155,725
2016	970,484,200	784,848,500	139,868,200	136,960,231	2,032,161,131
2017	970,485,050	784,849,600	139,861,263	136,957,713	2,032,153,625
2018	970,486,150	784,852,900	139,855,594	136,961,338	2,032,155,981
2019	970,486,650	784,854,100	139,858,338	136,964,463	2,032,163,550
2020	970,487,700	784,852,100	139,854,919	136,960,106	2,032,154,825
2021	970,486,700	784,848,100	139,865,625	136,960,781	2,032,161,206
2022	970,488,200	784,850,750	139,853,925	136,962,313	2,032,155,188
2023	970,487,550	784,845,250	139,868,081	136,959,850	2,032,160,731
2024	970,486,350	784,849,550	139,849,538	136,958,038	2,032,143,475
2025	970,482,000	784,852,550	139,858,825	136,959,831	2,032,153,206
2026	970,487,550	784,850,300	139,854,281	136,961,838	2,032,153,969
2027	970,485,950	784,845,550	139,868,369	136,955,156	2,032,155,025
2028	970,485,800	784,846,850	139,865,850	136,959,200	2,032,157,700
2029	970,484,850	784,848,400	139,861,925	136,961,694	2,032,156,869
2030	970,485,600	784,850,350	139,858,725	136,959,013	2,032,153,688
2031	970,484,550	784,853,200	139,860,581	136,961,181	2,032,159,513
2032	970,486,600	784,852,800	139,856,181	136,956,200	2,032,151,781
2033	970,485,050	784,849,900	139,855,438	136,960,550	2,032,150,938
2034	970,486,450	784,849,700	139,857,281	136,958,013	2,032,151,444
2035	970,484,400	784,846,400	139,861,194	136,961,019	2,032,153,013
2036	970,489,550	784,848,350	—	136,954,300	1,892,292,200
2037	970,484,000	784,847,000	—	—	1,755,331,000
2038	970,486,450	784,852,200	—	—	1,755,338,650
2039	970,485,100	784,851,000	—	—	1,755,336,100
2040	970,483,550	784,848,250	—	—	1,755,331,800
2041		784,845,550	—	—	784,845,550
TOTAL	$29,324,571,000	$23,734,222,400	$3,548,476,413	$3,458,120,813	$60,065,390,625

SOURCE: State of California, Office of the Treasurer.

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