



STATE OF CALIFORNIA

# DEBT AFFORDABILITY REPORT

OCTOBER 2012



**BILL LOCKYER**

California State Treasurer





**BILL LOCKYER**  
**TREASURER**  
**STATE OF CALIFORNIA**

October 1, 2012

Fellow Californians:

Our state's workers, families and communities continue to deal with the lingering effects of the deep national economic downturn. But there are signs better times may be ahead.

California's unemployment rate remains higher than the national rate, but in recent months the state has led the nation in creating new private sector jobs. Our housing market is still depressed, but it is beginning to show signs of recovery in most regions of the state. Consumer spending has begun to pick up. State and local government revenues, which suffered a sharp decline over the last five years, continue a slow recovery.

This year's Debt Affordability Report notes once again the share of the State's General Fund devoted to debt payment. The Governor and Legislature have continued a policy of restraint in authorizing new bond sales, balancing the need to continue funding vital infrastructure projects and jobs with the need to hold down growth in State spending. The Governor and Legislature this year also agreed on long-term pension reform, and for the second year in a row fashioned an on-time and balanced State budget, vindicating again voters' 2010 decision to authorize a majority-vote budget. In balancing the budget, the Governor and Legislature have made difficult decisions on both the spending and revenue side of the ledger. These decisions have been well-received by rating agencies and the state's investors, and bode well for the state's continued return to fiscal health.

The 2012 Debt Affordability Report provides useful and straightforward information about the nature and extent of the State's debt. I hope it proves a valuable resource for municipal finance professionals and California policymakers, and all those who want to take a closer look at how the State uses its borrowing authority to meet objectives set by voters, the Legislature and the Governor.

I commend and thank the staff of the State Treasurer's Office as well as our financial advisors and economists. They are professionals who work very hard and well to protect the interests and pocketbooks of Californians. They understand the job they do is important in creating the kind of future California wants and needs.

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

BILL LOCKYER  
California State Treasurer



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# Preface

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

- A listing of authorized but unissued debt the Treasurer intends to sell during the current year (2012-13) and the following year (2013-14), and the projected increase in debt service as a result of those sales.
- A description of the market for State bonds.
- An analysis of State bonds' credit ratings.
- A listing of outstanding debt supported by the General Fund and a schedule of debt service requirements for the debt.
- A listing of authorized but unissued bonds 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 full value of property and debt per capita.
- A comparison of these debt ratios for the State and the 10 most populous states.
- The percentage of the State's outstanding general obligation (GO) bonds comprised of 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 counterparty, and an assessment of how the contract met its objectives.

## 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 subject to limitation under California’s constitution. This conforms to the municipal market convention that applies the terms “debt” and “debt service” to a wide variety of instruments, regardless of their precise legal status.

The report references fiscal years without using the term “fiscal year” or “fiscal.” For example, 2012-13 means the 2012-13 fiscal year.

When referring to the government the word “State” is capitalized. When referring to California, the word “state” is lower-cased.





## SECTION 1:

# *Market for State Bonds*

The State continues to be one of the largest issuers in the \$3 trillion U.S. municipal bond market. The State set a two-year record in calendar years 2009-2010, issuing a total of \$30.9 billion of GO bonds. Since 2010, however, the State's GO bond issuance has decreased substantially. In calendar year 2011 and the first half of 2012, the State issued \$7.95 billion of GO bonds. Of that total, \$3.22 billion generated debt service savings by refunding already outstanding bonds.

The market and price for the State's bonds are affected by factors specific to the State, as well as overall conditions in capital markets. These factors include the economy, general market interest rates, municipal bond supply, investor perception of the State's credit, investor demand and the performance of alternative investments, such as stocks or other debt capital. Overall, given the continued weakness in the economy and concerns regarding European sovereign debt, 2012 has seen a continued flight to quality, with interest rates on U.S. Treasuries continuing to decline. Interest rates on tax-exempt municipal bonds also were affected by these conditions and declined to their lowest levels in July 2012.

From a credit perspective, the State continues to face financial challenges caused by the 2007-09 national recession and California's slow recovery. The economic downturn has left the State with significant revenue declines and large budget gaps. Despite these tough challenges, the Legislature and Governor on June 27, 2012 adopted a balanced budget for 2012-13. This was the second straight year the State adopted an on-time balanced budget following years of protracted stalemates and late budget passage.

To close a \$15.7 billion shortfall, the adopted 2012-13 budget cut spending by \$8.1 billion. It also included

\$6 billion of revenue solutions and \$2.5 billion of other solutions. The other solutions included loan repayment extensions, transfers and loans from special funds, additional weight fee revenue and payment of unemployment insurance interest. The revenue solutions include additional funds from the Governor's tax initiative, which will be before voters in the Nov. 6, 2012 general election. The Governor's measure, Proposition 30, would raise the 9.3 percent personal income tax rate on high earners to 10.3 percent for joint filers with incomes between \$500,000 and \$600,000, 11.3 percent for joint filers with incomes between \$600,000 and \$1 million, and 12.3 percent for joint filers with incomes above \$1 million. Proposition 30 also would raise the statewide sales tax rate by 0.25 percent. The personal income tax increases would last seven years, the sales tax hike four years. If approved by voters, the provisions would raise an estimated \$8.5 billion for the State General Fund through 2012-13. Since, pursuant to Proposition 98, \$2.9 billion would have to be allocated to K-12 schools and community colleges, the estimated net benefit to the General Fund would be \$5.6 billion.

To partially address the possibility voters reject Proposition 30, or that it passes but another tax initiative on the Nov. 6 ballot gets more votes, the 2012-13 budget incorporates automatically "triggered" General Fund spending reductions. These automatic cuts of approximately \$5.95 billion would go into effect on January 1, 2013. The 2011-12 budget also had triggered spending reductions. Because such provisions give the State a built-in response mechanism when revenues fall short of estimates, investors and rating agencies have viewed them favorably when assessing the State's credit profile.

To provide a better understanding of the market for the State's bonds, the discussion below reviews the larger municipal and taxable bond markets.

## INTEREST RATES AND ECONOMIC REFUNDINGS

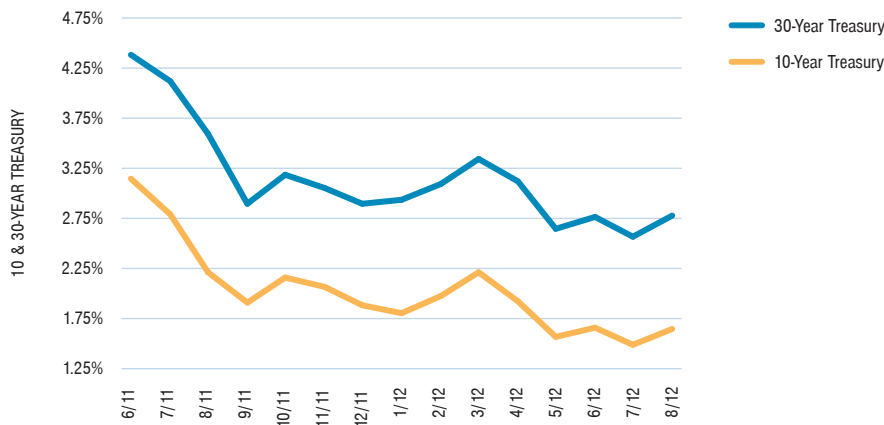
Between July 1, 2011 and August 31, 2012, both U.S. treasury and tax-exempt municipal interest rates generally followed a downward path (see Figures 1 and 2 below). Over this period, the 30-year tax-exempt Municipal Market

Data (MMD) index, the industry benchmark, declined by approximately 147 basis points. On July 25, 2012, it reached its lowest level in recorded history. The 10-year MMD index also declined dramatically over this period. The 30-year and 10-year MMD trend lines are displayed in Figure 2.

The State took advantage of these low tax-exempt interest rates to refund \$3.22 billion of its outstanding GO bonds to reduce interest costs. These refundings generated \$458 million of total debt service savings over the remaining life of the bonds.

**FIGURE 1**

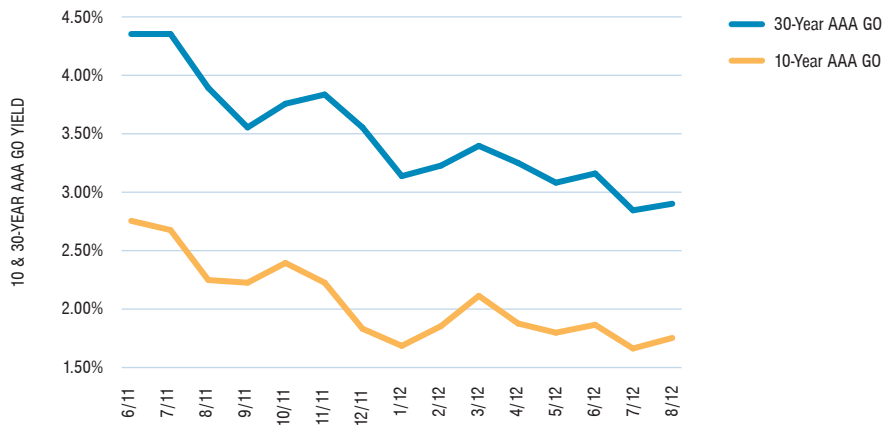
TRENDS OF TREASURY RATES



Source: Thomson Municipal Market Monitor (TM3)

**FIGURE 2**

TRENDS OF TAX-EXEMPT INTEREST RATES



Source: Thomson Municipal Market Monitor (TM3)

## SUPPLY AND DEMAND

The supply and demand factors in the municipal market differed significantly in 2011 and 2012. In 2011, supply and demand declined sharply. In contrast, 2012 has seen a substantial increase in both, creating a generally favorable market for municipal bond issuers, as detailed below.

**SUPPLY.** At \$287.72 billion, nationwide municipal bond volume in 2011 fell to its lowest level in 11 years. The drop came largely because issuers, anticipating the expiration of the Build America Bonds (BABs) program at the end of 2010, accelerated their activity in the last months of that year. In fact, municipal bond volume in 2010 hit a

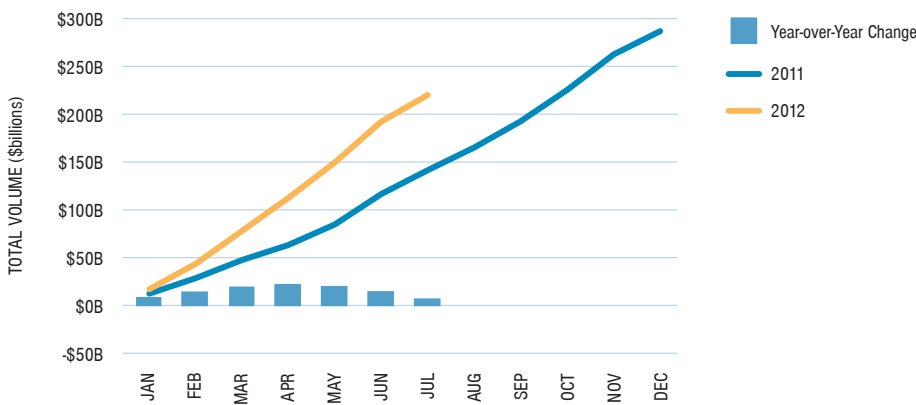
record high of \$433 billion. The 2011 total fell short of that number by 33.5 percent.

In 2012, however, supply has rebounded. As of July 31, 2012, municipal bond volume has increased by more than 56 percent nationally versus the same period last year and 46 percent in California. As noted above, the attractive interest rate environment has spurred the State and other issuers to sell refunding bonds. As of August 30, 2012, total municipal volume has been comprised of 44 percent refunding issues, 37 percent new-money issues and 19 percent combined refunding and new-money issues.

Figures 3 and 4 present the cumulative volume of national and California municipal bond issuance in 2011 and 2012.

**FIGURE 3**

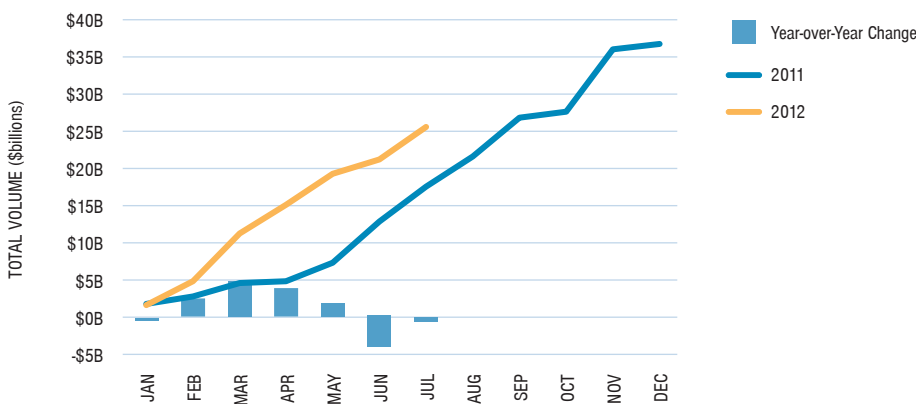
U.S. CUMULATIVE BOND VOLUME, 2011 AND YTD 2012



Source: Thomson Municipal Market Monitor (TM3)

**FIGURE 4**

CALIFORNIA CUMULATIVE BOND VOLUME, 2011 AND YTD 2012



Source: Thomson Municipal Market Monitor (TM3)

Another important municipal market metric is net supply. Each year, investors redeem billions of dollars of municipal bonds and look to reinvest the money by purchasing more bonds. The new-issue supply usually exceeds these redemptions, which increases opportunities for investors. This year, however, redemptions exceeded new issuance in a number of months, creating a supply-demand balance that has favored issuers.

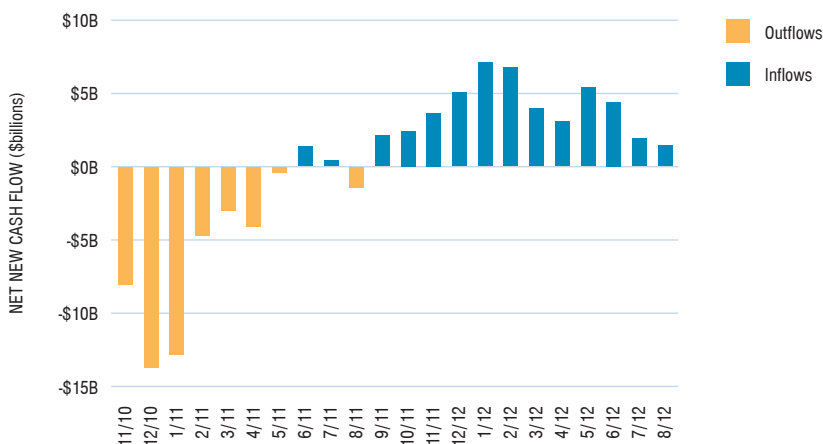
**DEMAND.** Based on their tax treatment, tax-exempt bonds have a limited universe of investors. This investor base changed and became even more limited in the aftermath of the 2008 financial crisis. Many non-traditional tax-exempt investors that had been significant participants, such as hedge funds, withdrew from the municipal market. Meanwhile, in calendar years 2009-2010, the two-year authorization period for BABs, taxable investors became a new, large and important municipal investor base. Then, with the expiration of the BABs program as well as the previous withdrawal of the non-traditional investors, the municipal market, beginning in 2011, became significantly more dependent on tax-

exempt municipal bond funds and retail investors. However, from late 2010 through the first half of 2011, municipal bond mutual funds lost a significant amount of assets (approximately \$44 billion). That suppressed demand for tax-exempt municipal bonds. The negative cash flow began to reverse itself in late 2011, and the improvement has continued to the present. As shown in Figure 5, the performance of tax-exempt municipal bond funds has improved dramatically. As of August 22, 2012, inflows into municipal bond funds were positive for 46 consecutive weeks, and injected into the funds \$41.6 billion of assets. In addition, as of August 29, 2012, California bond funds had 23 consecutive weeks of net inflows and added more than \$2.1 billion of assets. These positive inflows have been attributed to the volatility and underperformance of other investment markets (including equity, commodities and international fixed income), the relative health of the U.S. economy among industrialized countries, and concerns about the year-end “fiscal cliff.”

While it varies from month-to-month, traditional retail investor interest, on the whole, has fallen along with the

**FIGURE 5**

MUNICIPAL BOND MARKET, MONTHLY FUND INFLOWS/OUTFLOWS



Source: Investment Company Institute (ICI)

general decline in interest rates. As shown in Figure 6, demand among small investors in 2012 has been lower than in 2011, which in turn was down approximately 24 percent from 2008.

A growing segment of the retail investor market has been dominated by separately managed accounts (SMAs). These professionally administered SMAs are taking the place of traditional “mom and pop” investors. In SMAs, individual high net worth investors establish accounts managed by professional investment advisors who buy the bonds and directly deposit the purchased bonds into individual accounts.

Despite the drop in retail purchases, the strong mutual fund growth and favorable net supply environment have kept investor demand strong enough to absorb 2012’s strong average weekly supply of \$6.6 billion.

**VARIABLE RATE BONDS.** The financial crisis severely impaired the markets for the two predominant municipal bond variable rate structures – variable rate demand bonds (VRDBs) and auction rate securities (ARS). First, ARS auctions began to fail. That market ultimately collapsed and has not returned. Then, as the commercial banks’ credit quality deteriorated dramatically, issuers with VRDBs, which generally require commercial bank support, faced a severely limited supply of credit facilities, much higher pricing and more onerous terms and conditions. As a result, since 2008, issuers have been, at most, trying to maintain their variable rate exposure, with virtually no new VRDBs being issued. During this

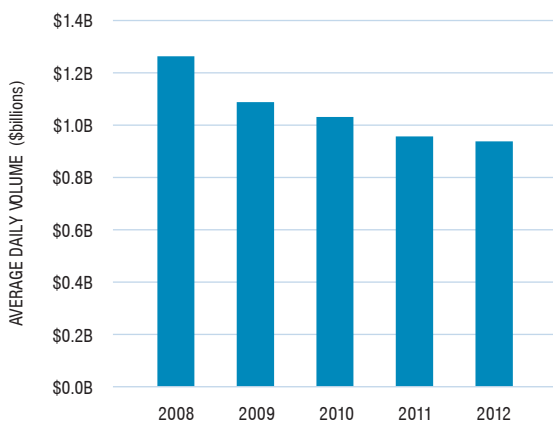
period, alternative variable rate products that do not require any external credit support have been developed for municipal issuers, including indexed floaters and extendible commercial paper. These products generally incorporate sufficient time prior to their maturity for the issuer to re-access capital markets to refund or renew these short-term obligations. They enable issuers, based on their own credit, to access the low-cost variable rate market at attractive terms relative to the fixed-rate and credit-supported VRDB markets. In 2012, for the first time, the State issued \$198 million of indexed floaters to refinance existing GO VRDBs. This reduced the State’s exposure to, and dependence on, credit support facilities.

**MUNICIPAL BANKRUPTCIES.** While the market for municipal bonds generally has been strong this year, a significant negative credit development has been the decision by a number of local governments to address their fiscal challenges by declaring a fiscal emergency or filing for Chapter 9 bankruptcy relief. In California, these entities have included the cities of Stockton, San Bernardino and Mammoth Lakes. In addition, a number of other California local governments have stated publicly they are considering similar actions. These developments followed the City of Vallejo’s emergence earlier this year from its three-year bankruptcy process.

According to some reports, 53 California municipalities, 52 of which are cities (11 percent of all California cities) have declared a fiscal emergency in the last five years. Nationally, a number of local governments including Harrisburg, Pennsylvania and Central Falls, Rhode Island, took similar steps. In general, these distressed municipalities’ leaders say revenue declines, inability to raise revenues and expenditure pressures, including large pension obligations, have narrowed their feasible financial options.

In California, local governments have defaulted on lease revenue bonds, certificates of participation and pension obligation bonds. While these actions remain limited, many local governments continue to face stiff fiscal challenges in the aftermath of the severe recession. As a result, investors and credit enhancement providers have additional questions and concerns about certain types of bonds and credits. Moody’s Investors Service (Moody’s) has indicated it will review the ratings of all California cities and expects to create a sharper distinction between GO bond ratings and ratings on unsecured general fund obligations such as pension obligation bonds, lease revenue bonds and certificates of participation. However, while there is a heightened perception of credit risk for California cities, Moody’s said it expects the number of Chapter 9 filings and defaults to remain low.

**FIGURE 6**  
CUSTOMER BUY TRADES OF \$500,000 OR LESS 2008 - 2012 Q2



Source: Municipal Securities Rulemaking Board (MSRB)  
Data through 2<sup>nd</sup> Quarter 2012

## THE STATE'S BONDS

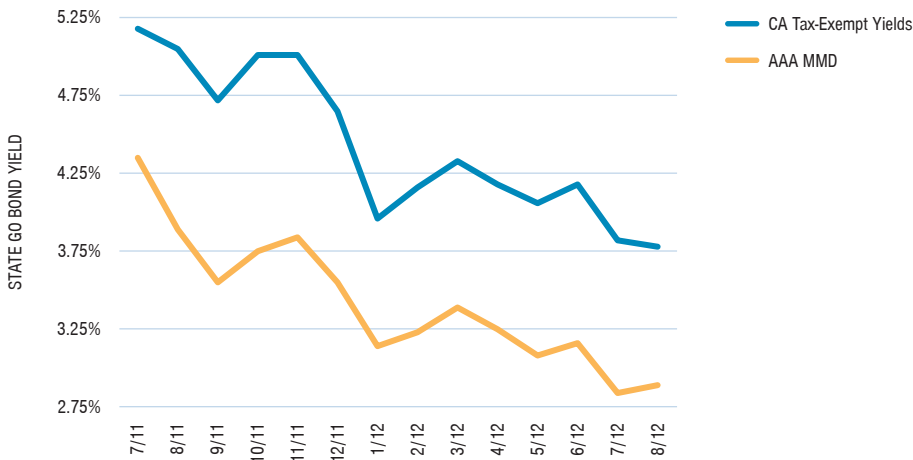
From July 1, 2011 through August 29, 2012, yields on the State's tax-exempt bonds have declined substantially (see Figure 7). As discussed above, the changes over this period resulted from a variety of factors, including global economic conditions, an investor flight to quality, strong municipal bond mutual fund inflows, positive net supply conditions and relatively positive perceptions of the State's credit profile.

Figure 8 depicts the State's bond yields by showing the amount of GO bonds sold and how the yields compared to

the MMD index. In general, the State's spreads to MMD are impacted by general market conditions, the State's credit and the timing and amount of bonds the State sells. Prior to the budget being passed in June 2011, the State had not sold any tax-exempt bonds since November 2010. This created a scarcity of supply. The State's yields declined, and the MMD spreads tightened dramatically. However, with the on-time budget approval in June 2011, and the expectation of significant upcoming State supply, spreads to MMD widened. Similarly, spreads tightened again after the State's two fall 2011 sales in September and October, widened around the March 2012 and April 2012 sales, and then narrowed.

**FIGURE 7**

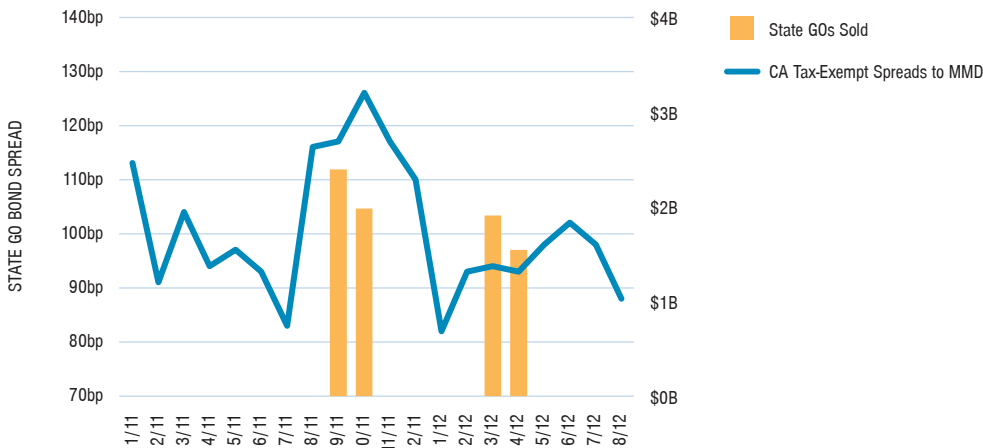
TRENDS OF CALIFORNIA GO BOND YIELDS, 30-YEAR GO BONDS



Source: Thomson Municipal Market Monitor (TM3)

**FIGURE 8**

TRENDS OF CALIFORNIA GO BOND SPREADS, 30-YEAR GO BONDS



Source: Thomson Municipal Market Monitor (TM3)

## SECTION 2:

# *Snapshot of State's Debt*

### OVERVIEW

Figure 9 summarizes the State's debt as of June 30, 2012. This debt includes GO bonds approved by voters, lease

revenue bonds (LRBs) authorized by the Legislature, Proposition 1A receivables bonds (Prop 1A) authorized by the 2009-10 Budget Act<sup>1</sup> and other special fund or self-liquidating bonds. The numbers include bonds the State

### FIGURE 9

SUMMARY OF STATE'S DEBT (a)  
AS OF JUNE 30, 2012 (dollars in billions)

GENERAL FUND SUPPORTED ISSUES	OUTSTANDING	AUTHORIZED BUT UNISSUED	TOTAL
General Obligation Bonds	\$73.06	\$33.07	\$106.13
Lease Revenue Bonds (b)	11.33	7.19	18.52
Proposition 1A Receivables Bonds	1.90	-	1.90
<b>TOTAL GENERAL FUND SUPPORTED ISSUES</b>	<b>\$86.29</b>	<b>\$40.26</b>	<b>\$126.55</b>
<b>SPECIAL FUND/SELF LIQUIDATING ISSUES</b>			
Economic Recovery Bonds	\$6.39	\$ -	\$6.39
Veterans General Obligation Bonds	0.76	1.14	1.90
California Water Resources Development General Obligation Bonds	0.36	0.17	0.53
<b>TOTAL SPECIAL FUND/SELF LIQUIDATING ISSUES</b>	<b>\$7.51</b>	<b>\$1.31</b>	<b>\$8.82</b>
<b>TOTAL</b>	<b>\$93.8</b>	<b>\$41.57</b>	<b>\$135.37</b>

(a) Debt obligations not included in Figure 9: Any short-term obligations such as commercial paper or revenue anticipation notes; revenue bonds issued by State agencies which are repaid from specific revenues outside the General Fund; and "conduit" bonds, such as those issued by State financing authorities on behalf of other governmental or private entities whose obligations secure the bonds.

(b) SB 1022 (2012) significantly reduced the bond authority associated with the Public Safety and Offender Rehabilitation Act of 2007. In addition, SB 1407 authorized an additional amount for construction of certain court projects. The figure above excludes the amount for those projects that have not been appropriated through enacted budgets.

<sup>1</sup> The Proposition 1A receivables bonds were issued pursuant to Title 1, Chapter 5, Division 7, Article 4 (commencing with Section 6584) of the Government Code of the State of California.

has sold (outstanding) and bonds authorized but not yet sold. A detailed list of the State's outstanding bonds, and their debt service requirements, can be found in Appendices A and B (except for special fund LRBs issued through a joint powers authority).

- Approximately 5.2 percent of all GO bonds carry variable interest rates. The law authorizes up to 20 percent of GO bonds (including Economic Recovery Bonds) to be variable rate. The remaining 94.8 percent of the State's GO bonds have fixed interest rates.
- The State has no interest rate hedging contracts on any debt discussed in this report.

### INTENDED ISSUANCE OF GENERAL FUND-BACKED BONDS

When available, the State Treasurer's Office (STO) uses the Department of Finance's (DOF) projections for future debt issuance by the State. As of the date of this report, DOF has provided estimates for LRBs and for fall 2012 issuance of GO bonds. However, DOF is in the process of analyzing

GO bond funding needs for spring 2013 as well as 2013-14. Therefore, this report's GO bond issuance estimates for these periods have not been approved by DOF. They are subject to change.

Projections for new-money debt issuance are based on a variety of factors and are periodically updated. Factors that could affect the amount of issuance include actual spending patterns by departments, revised funding needs, overall budget constraints, use or take-out of commercial paper and general market conditions. Actual issuance amounts often vary significantly from initial estimates.

Figure 10 shows the STO's estimated issuance of new-money General Fund-backed bonds over the next two fiscal years. Only currently authorized but unissued GO bonds are reflected in Figure 10. The estimated issuance may increase should new bond programs be approved.

As shown in Figure 10, STO preliminarily estimates the State will issue a combined \$12.79 billion of new money General Fund-backed bonds in 2012-13 and 2013-14. Using these assumptions for debt issuance, STO estimates debt service payments from the General Fund will increase by \$35.03 million in 2012-13 and \$392.50 million in 2013-14.

**FIGURE 10**

INTENDED ISSUANCE GENERAL FUND-SUPPORTED BONDS (a)  
(dollars in millions)

	2012-13	2013-14
General Obligation Bonds	\$4,193	\$5,269
Lease Revenue Bonds	\$1,061	\$2,268
<b>TOTAL GENERAL FUND-SUPPORTED BONDS</b>	<b>\$5,254</b>	<b>\$7,537</b>

(a) Debt issuances not included in Figure 10: Any short-term obligations such as commercial paper or revenue anticipation notes; refunding bonds; revenue bonds issued by State agencies which are repaid from specific revenues outside the General Fund; and "conduit" bonds, such as those issued by State financing authorities on behalf of other governmental or private entities whose obligations secure the bonds.



## SECTION 3:

# 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 that 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. A fourth ratio, debt as a percentage of gross domestic product (GDP), also can be a useful comparison tool.

### DEBT SERVICE AS PERCENTAGE OF GENERAL FUND REVENUES

Because debt service is considered a fixed part of a budget, credit analysts compare General Fund-supported debt service to General Fund revenues to measure a state's fiscal flexibility. California's ratio of debt service to General Fund revenues was 7.9 percent<sup>2</sup> in 2011-12. That figure is based on \$6.9 billion of GO, LRB and Proposition 1A debt service payments versus \$86.8 billion of General Fund revenues. The STO estimates this ratio will be 8.9 percent<sup>3</sup> in 2012-13. That estimate is based on \$8.6 billion of debt service

payments versus \$95.9 billion of General Fund revenues (as projected by DOF).<sup>4</sup> The 2013-13 debt service ratio would be higher if voters reject Proposition 30.

### DEBT AS PERCENTAGE OF PERSONAL INCOME

Comparing a state's level of debt to the total personal income of its residents is a way to measure a state's ability to generate revenues and repay its obligations. In its 2012 State Debt Medians report, Moody's lists the State's ratio of net tax-supported debt to personal income at 6.0 percent.<sup>5</sup>

### 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 other financial resources of residents. As a result, debt per capita does not reflect a state's ability to repay its obligations as well as other ratios, such as debt service as a percentage of General Fund revenues or

<sup>2</sup> Does not reflect offsets due to subsidy payments from the federal government for BABs or transfers from special funds. When debt service is adjusted to account for approximately \$1.1 billion of estimated offsets, the 2011-12 debt service decreases to \$5.73 billion and the ratio of debt service to General Fund revenues drops to 6.60 percent.

<sup>3</sup> Does not reflect offsets due to subsidy payments from the federal government for BABs or transfers from special funds. When debt service is adjusted to account for approximately \$1.1 billion of estimated offsets, the 2012-13 debt service decreases to \$7.42 billion and the ratio of debt service to General Fund revenues drops to 7.74 percent.

<sup>4</sup> Excludes special fund bonds, for which annual debt service is paid from dedicated funds. Ratio reflects debt service from only a portion of the bond sales listed in Figure 10. For example, \$1 billion of the \$4.2 billion in GO bonds and \$0.66 billion of the \$1.1 billion in LRBs planned for 2012-13 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 GO bonds and LRBs to be sold in 2012-13 will not have a debt service payment during the fiscal year and, therefore, will not affect the 2012-13 debt service ratio. When the debt service on the Economic Recovery Bonds (ERBs) is added to General Fund-supported debt service (excluding offsets due to subsidy payments from the federal government for BABs or transfers from special funds), and the revenue from the quarter-cent sales tax dedicated for payment of the ERBs is added to General Fund revenues, the ratio of debt service to General Fund revenues increases to 9.0 percent in 2011-12 and 9.6 percent in 2012-13.

<sup>5</sup> The Moody's calculation of net tax-supported debt includes GO bonds (non self-liquidating), LRBs (excluding UC), ERBs, Prop 1A, GO commercial paper notes, federal Highway Grant Anticipation Bonds, tobacco securitization bonds with a General Fund backstop, California Judgment Trust Obligations, Bay Area Infrastructure Financing Authority's State payment acceleration notes and State Building Lease Purchase bonds.

debt as a percentage of personal income. In its 2012 State Debt Medians report, Moody's lists the State's debt per capita at \$2,559.<sup>6</sup>

### DEBT AS PERCENTAGE OF STATE GDP

Debt as a percentage of GDP generally is used to measure the financial leverage provided by an issuer's economy. Specifically, this debt ratio compares what an issuer owes versus what it produces. California has one of the world's largest – ninth ranked in 2011 – and most diverse economies.<sup>7</sup> In its 2012 State Debt Medians report, Moody's lists the State's debt-to-GDP ratio at 5.07 percent.<sup>6</sup>

### CALIFORNIA'S DEBT LEVELS COMPARED TO OTHER LARGE STATES

Moody's calculates the ratios of debt to personal income, debt per capita and debt as a percentage of GDP for each state and publishes an annual report containing the median ratios (State Debt Medians report). It is useful to compare California's debt levels with those of its "peer group" of the 10 most populous states. As shown in Figure 11, the median debt to personal income, debt per capita and debt as a percentage of GDP of these 10 states are, on average, in line with Moody's median for all states combined. California's ratios, however, rank well above the medians for the 10 most populous states.

**FIGURE 11**

DEBT RATIOS OF 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)	DEBT AS A % OF STATE GDP(b)(c)
Texas	Aaa/AA+/AAA	1.5%	\$588	1.25%
Michigan	Aa2/AA-/AA-	2.2%	\$785	2.02%
North Carolina	Aaa/AAA/AAA	2.3%	\$815	1.85%
Pennsylvania	Aa2/AA/AA+	2.8%	\$1,134	2.54%
Ohio	Aa1/AA+/AA+	2.8%	\$1,012	2.45%
Florida	Aa1/AAA/AAA	3.0%	\$1,167	2.97%
Georgia	Aaa/AAA/AAA	3.1%	\$1,099	2.68%
Illinois	A2/A/A	6.0%	\$2,564	5.06%
California	A1/A-/A-	6.0%	\$2,559	5.07%
New York	Aa2/AA/AA	6.6%	\$3,208	5.38%
MOODY'S MEDIAN ALL STATES		2.8%	\$1,117	2.40%
MEDIAN FOR THE 10 MOST POPULOUS STATES		2.9%	\$1,117	2.61%

(a) Moody's, Standard & Poor's, and Fitch Ratings as of September 2012.

(b) Figures as reported by Moody's in its 2012 State Debt Medians Report released May 2012. As of calendar year end 2011.

(c) State GDP numbers have a one-year lag.

<sup>6</sup> The Moody's calculation of net tax-supported debt includes GO bonds (non self-liquidating), LRBs (excluding UC), ERBs, Prop 1A, GO commercial paper notes, federal Highway Grant Anticipation Bonds, tobacco securitization bonds with a General Fund backstop, California Judgment Trust Obligations, Bay Area Infrastructure Financing Authority's State payment acceleration notes and State Building Lease Purchase bonds.

<sup>7</sup> California GDP for 2011 as reported by the U.S. Bureau of Economic Analysis. Sovereign Country Ranking and GDP for 2011 as reported by the World Bank.

## SECTION 4:

# *Analysis of State's Credit Ratings*

The State's current GO bond ratings are A- from Fitch Ratings (Fitch), A1 from Moody's and A- from Standard & Poor's (S&P). These reflect the lowest state rating from Fitch and S&P, and the second-lowest state rating from Moody's. Figure 12 presents a summary of the latest rating agencies' actions on the State's GO bonds.

In 2012, Fitch and Moody's maintained a stable outlook on the State's credit rating. On February 14, 2012, S&P upgraded the State's outlook to positive from stable. In revising the outlook, S&P credited the State's implementation of structurally-oriented budget solutions, its determination to resolve the structural budget imbalance with a multi-year plan, its commitment to follow-through on mid-year triggered spending cuts, and an improved

framework for adopting budgets. S&P also pointed to the State's improved economic outlook, including slow but steady job growth, as a credit positive.

In its report, S&P said "by downsizing its spending base, the state has corrected a significant portion of its budget imbalance." S&P said a rating upgrade for California will depend on the State's ability to realign its cash performance with budget estimates. On the other hand, S&P said the outlook could return to stable if "intransigent budget negotiations emerge despite the state's majority vote procedures." Furthermore, because of its heavy reliance on the personal income tax, an unexpected weakness in that revenue source could exert downward pressure on the State's credit rating, said S&P.

**FIGURE 12**

### LATEST RATING ACTIONS

RATING AGENCY	ACTION	DATE
S&P	Affirmed A- and revised outlook to positive from stable	February 2012
	Affirmed A- and positive outlook	September 2012
Fitch	Affirmed A- and stable outlook	September 2012
Moody's	Affirmed A1 and stable outlook	September 2012

Figure 13 presents a summary of the rating agencies' opinion of the State's credit strengths and challenges.

**FIGURE 13**

STATE OF CALIFORNIA GENERAL OBLIGATION RATING AGENCY COMMENTARY

	FITCH	MOODY'S	S&P
RATING STRENGTHS	<ul style="list-style-type: none"> <li>• Wealthy, diverse economy, with growth resuming after recessionary conditions</li> <li>• Moderate, but above average, debt burden</li> <li>• Deep spending cuts in past two budgets have significantly lowered the state's structural imbalance</li> </ul>	<ul style="list-style-type: none"> <li>• Large, diverse and wealthy economy</li> <li>• Long-term liabilities are average compared to many other states</li> <li>• Relatively well-funded pension obligation</li> </ul>	<ul style="list-style-type: none"> <li>• Economic depth and diversity</li> <li>• Reduced risk of liquidity crises with a majority vote budget</li> <li>• Cash management practices provide the state flexibility during budget and cash emergencies</li> </ul>
RATING CHALLENGES	<ul style="list-style-type: none"> <li>• State finances are subject to cash flow crises due to structural imbalances, cyclical revenues and institutional inflexibility</li> <li>• Constraints imposed by voter initiatives and a partisan policymaking environment have hindered timely and effective action on fiscal challenges</li> <li>• Revenues are volatile, notably the personal income tax component</li> </ul>	<ul style="list-style-type: none"> <li>• Highly volatile revenue structure</li> <li>• Political environment in which making speedy and productive gap-solving decisions is difficult</li> <li>• Reliance in the past on one-time solutions (including deficit borrowing) for longer-term problems</li> <li>• Limited financial and budgetary flexibility</li> </ul>	<ul style="list-style-type: none"> <li>• Revenues are prone to volatility and tend to be correlated with financial markets more than underlying economic trends</li> <li>• Lack of a meaningful reserve policy and a history of limited (twice per year) revenue forecasting</li> <li>• Governance rules that can contribute to delayed and sub-optimal fiscal decision making</li> <li>• Large future debt, retirement benefit and budgetary liabilities, which will siphon future State resources</li> </ul>

## APPENDIX A:

# *The State's Debt*

### AUTHORIZED AND OUTSTANDING NON-SELF LIQUIDATING GENERAL OBLIGATION BONDS AS OF JUNE 30, 2012 (dollars in thousands)

GENERAL FUND BONDS	VOTER AUTHORIZATION DATE	VOTER AUTHORIZATION AMOUNT \$	LONG TERM BONDS OUTSTANDING (a) \$	LONG TERM BONDS UNISSUED (b) \$
+ 1988 School Facilities Bond Act	11/08/88	797,745	53,620	-
+ 1990 School Facilities Bond Act	06/05/90	797,875	124,755	-
+ 1992 School Facilities Bond Act	11/03/92	898,211	341,360	-
California Clean Water, Clean Air, Safe Neighborhood Parks, and Coastal Protection Act of 2002	03/05/02	2,600,000	2,251,440	259,240
+ California Library Construction and Renovation Bond Act of 1988	11/08/88	72,405	17,880	-
+ California Park and Recreational Facilities Act of 1984	06/05/84	368,900	16,370	-
California Parklands Act of 1980	11/04/80	285,000	3,580	-
California Reading and Literacy Improvement and Public Library Construction and Renovation Bond Act of 2000	03/07/00	350,000	286,065	5,040
+ California Safe Drinking Water Bond Law of 1976	06/08/76	172,500	3,640	-
California Safe Drinking Water Bond Law of 1984	11/06/84	75,000	2,380	-
California Safe Drinking Water Bond Law of 1986	11/04/86	100,000	28,495	-
California Safe Drinking Water Bond Law of 1988	11/08/88	75,000	34,500	-
+ California Wildlife, Coastal, and Park Land Conservation Act	06/07/88	768,670	148,995	-
Children's Hospital Bond Act of 2004	11/02/04	750,000	670,680	47,445
Children's Hospital Bond Act of 2008	11/04/08	980,000	528,865	449,240
Class Size Reduction Kindergarten-University Public Education Facilities Bond Act of 1998 (Higher Education)	11/03/98	2,500,000	1,963,010	-
Class Size Reduction Kindergarten-University Public Education Facilities Bond Act of 1998 (K-12)	11/03/98	6,700,000	4,652,980	11,860
Clean Air and Transportation Improvement Bond Act of 1990	06/05/90	1,990,000	940,980	38,945
Clean Water Bond Law of 1984	11/06/84	325,000	13,675	-
Clean Water and Water Conservation Bond Law of 1978	06/06/78	375,000	5,650	-
Clean Water and Water Reclamation Bond Law of 1988	11/08/88	65,000	28,345	-

**AUTHORIZED AND OUTSTANDING  
NON-SELF LIQUIDATING GENERAL OBLIGATION BONDS  
AS OF JUNE 30, 2012 (dollars in thousands) CONTINUED**

GENERAL FUND BONDS	VOTER AUTHORIZATION DATE	VOTER AUTHORIZATION AMOUNT \$	LONG TERM BONDS OUTSTANDING (a) \$	LONG TERM BONDS UNISSUED (b) \$
Community Parklands Act of 1986	06/03/86	100,000	3,940	-
County Correctional Facility Capital Expenditure Bond Act of 1986	06/03/86	495,000	28,590	-
County Correctional Facility Capital Expenditure and Youth Facility Bond Act of 1988	11/08/88	500,000	103,745	-
Disaster Preparedness and Flood Prevention Bond Act of 2006	11/07/06	4,090,000	2,252,925	1,818,652
Earthquake Safety and Public Buildings Rehabilitation Bond Act of 1990	06/05/90	300,000	138,485	9,765
Fish and Wildlife Habitat Enhancement Act of 1984	06/05/84	85,000	6,035	-
Higher Education Facilities Bond Act of 1988	11/08/88	600,000	30,205	-
Higher Education Facilities Bond Act of June 1990	06/05/90	450,000	65,865	540
Higher Education Facilities Bond Act of June 1992	06/02/92	900,000	405,225	1,305
Highway Safety, Traffic Reduction, Air Quality, and Port Security Bond Act of 2006	11/07/06	19,925,000	8,932,560	10,850,440
Housing and Emergency Shelter Trust Fund Act of 2002	11/05/02	2,100,000	1,602,250	132,535
Housing and Emergency Shelter Trust Fund Act of 2006	11/07/06	2,850,000	1,543,280	1,258,990
Housing and Homeless Bond Act of 1990	06/05/90	150,000	2,395	-
Kindergarten-University Public Education Facilities Bond Act of 2002 (Hi-Ed)	11/05/02	1,650,000	1,512,565	-
Kindergarten-University Public Education Facilities Bond Act of 2002 (K-12)	11/05/02	11,400,000	10,014,765	71,900
Kindergarten-University Public Education Facilities Bond Act of 2004 (Hi-Ed)	03/02/04	2,300,000	2,113,060	68,864
Kindergarten-University Public Education Facilities Bond Act of 2004 (K-12)	03/02/04	10,000,000	8,981,770	524,870
Kindergarten-University Public Education Facilities Bond Act of 2006 (Hi-Ed)	11/07/06	3,087,000	2,603,355	471,655
Kindergarten-University Public Education Facilities Bond Act of 2006 (K-12)	11/07/06	7,329,000	5,553,905	1,763,655
Lake Tahoe Acquisitions Bond Act	08/02/82	85,000	600	-
New Prison Construction Bond Act of 1986	11/04/86	500,000	11,810	-
New Prison Construction Bond Act of 1988	11/08/88	817,000	30,985	2,165
New Prison Construction Bond Act of 1990	06/05/90	450,000	40,805	605
Passenger Rail and Clean Air Bond Act of 1990	06/05/90	1,000,000	123,435	-
Public Education Facilities Bond Act of 1996 (Higher Education)	03/26/96	975,000	603,820	14,720
+ Public Education Facilities Bond Act of 1996 (K-12)	03/26/96	2,012,035	1,102,955	-
Safe Drinking Water, Clean Water, Watershed Protection, and Flood Protection Act	03/07/00	1,970,000	1,554,450	135,844
Safe Drinking Water, Water Quality and Supply, Flood Control, River and Coastal Protection Bond Act of 2006	11/07/06	5,388,000	2,417,410	2,957,710
Safe Neighborhood Parks, Clean Water, Clean Air, and Coastal Protection Bond Act of 2000	03/07/00	2,100,000	1,674,020	85,815
Safe, Clean, Reliable Water Supply Act	11/05/96	995,000	686,410	89,070

**AUTHORIZED AND OUTSTANDING  
NON-SELF LIQUIDATING GENERAL OBLIGATION BONDS  
AS OF JUNE 30, 2012 (dollars in thousands) CONTINUED**

GENERAL FUND BONDS	VOTER AUTHORIZATION DATE	VOTER AUTHORIZATION AMOUNT \$	LONG TERM BONDS OUTSTANDING (a) \$	LONG TERM BONDS UNISSUED (b) \$
Safe, Reliable High-Speed Passenger Train Bond Act for the 21 <sup>st</sup> Century	11/04/08	9,950,000	499,285	9,448,725
School Building and Earthquake Bond Act of 1974	11/05/74	40,000	18,640	-
School Facilities Bond Act of 1990	11/06/90	800,000	200,325	-
School Facilities Bond Act of 1992	06/02/92	1,900,000	725,000	10,280
Seismic Retrofit Bond Act of 1996	03/26/96	2,000,000	1,361,885	-
State, Urban, and Coastal Park Bond Act of 1976	11/02/76	280,000	5,055	-
Stem Cell Research and Cures Bond Act of 2004	11/02/04	3,000,000	1,120,305	1,873,475
Veterans Homes Bond Act of 2000	03/07/00	50,000	39,190	975
Voting Modernization Bond Act of 2002	03/05/02	200,000	62,325	64,495
Water Conservation Bond Law of 1988	11/08/88	60,000	28,200	5,235
Water Conservation and Water Quality Bond Law of 1986	06/03/86	150,000	41,270	13,730
Water Security, Clean Drinking Water, Coastal and Beach Protection Act of 2002	11/05/02	3,440,000	2,700,500	586,909
<b>TOTAL GENERAL FUND BONDS</b>		<b>127,519,341</b>	<b>73,060,865</b>	<b>33,074,694</b>

(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 bond Finance Committees. A total of not more than \$1.649 billion of commercial paper principal plus accrued interest may be owing at one time.

+ SB 1018 (06/27/2012) reduced the voter authorized amount

**AUTHORIZED AND OUTSTANDING  
SELF LIQUIDATING GENERAL OBLIGATION BONDS  
AS OF JUNE 30, 2012 (dollars in thousands)**

ENTERPRISE FUND BONDS	VOTER AUTHORIZATION DATE	VOTER AUTHORIZATION AMOUNT \$	LONG TERM BONDS OUTSTANDING (a) \$	LONG TERM BONDS UNISSUED (b) \$
California Water Resources Development Bond Act	11/08/60	1,750,000	362,375	167,600
Veterans Bond Act of 1986	06/03/86	850,000	106,230	-
Veterans Bond Act of 1988	06/07/88	510,000	92,905	-
Veterans Bond Act of 1990	11/06/90	400,000	67,625	-
Veterans Bond Act of 1996	11/05/96	400,000	240,375	-
Veterans Bond Act of 2000	11/07/00	500,000	250,425	238,610
Veterans Bond Act of 2008	11/04/08	900,000	-	900,000
<b>TOTAL ENTERPRISE FUND BONDS</b>		<b>5,310,000</b>	<b>1,119,935</b>	<b>1,306,210</b>
<b>SPECIAL REVENUE FUND BONDS</b>				
Economic Recovery Bond Act	04/10/04	15,000,000	6,386,950	-
<b>TOTAL SPECIAL REVENUE FUND BONDS</b>		<b>15,000,000</b>	<b>6,386,950</b>	<b>-</b>
<b>TOTAL SELF LIQUIDATING GENERAL OBLIGATION BONDS</b>		<b>20,310,000</b>	<b>7,506,885</b>	<b>1,306,210</b>

(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 bond Finance Committees. A total of not more than \$1.649 billion of commercial paper principal plus accrued interest may be owing at one time.



**AUTHORIZED AND OUTSTANDING  
LEASE REVENUE BONDS  
AS OF JUNE 30, 2012 (dollars in thousands)**

GENERAL FUND SUPPORTED ISSUES:	OUTSTANDING	AUTHORIZED BUT UNISSUED
<b>STATE PUBLIC WORKS BOARD</b>		
California Community Colleges	\$401,100	\$ -
California Department of Corrections and Rehabilitations (a)	3,138,770	3,731,867
The Regents of the University of California (b)	2,457,810	118,217
Trustees of the California State University	866,425	289,577
Various State Facilities (c)	4,017,875	3,046,449
<b>TOTAL STATE PUBLIC WORKS BOARD ISSUES</b>	<b>\$10,881,980</b>	<b>\$7,186,110</b>
<b>TOTAL OTHER STATE FACILITIES LEASE-REVENUE ISSUES (d)</b>	<b>\$448,375</b>	<b>\$ -</b>
<b>TOTAL GENERAL FUND SUPPORTED ISSUES</b>	<b>\$11,330,355</b>	<b>\$7,186,110</b>

(a) Includes the amount appropriated under the Public Safety and Offender Rehabilitation Services Act ("AB 900"), which was reduced as a result of the enactment of SB 1022 (Ch. 42/12).

(b) 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 and are separate from the State General Fund. A portion of the Regents' annual budget is derived from General Fund appropriations.

(c) This includes projects supported by multiple funding sources in addition to the General Fund. In addition, SB 1407 authorized an additional amount for construction of certain court projects. The figure above excludes the amount for those projects that have not been appropriated through enacted budgets. Includes FISCal.

(d) Includes \$119,080,000 Sacramento City Financing Authority Lease-Revenue Bonds State of California - Cal/EPA Building, 1998 Series A, which are supported by lease rentals from the California Environmental Protection Agency. These rental payments are subject to annual appropriation by the Legislature.



**APPENDIX B:**

*The State's Debt Service*

**SCHEDULE OF DEBT SERVICE REQUIREMENTS  
FOR STATE OF CALIFORNIA  
PROPOSITION 1A RECEIVABLES PROGRAM<sup>(a)</sup>  
REVENUE BONDS, FIXED RATE, AS OF JUNE 30, 2012**

FISCAL YEAR ENDING JUNE 30	CURRENT DEBT		
	INTEREST	PRINCIPAL	TOTAL
2013	\$90,800,000.00	\$1,895,000,000.00	\$1,985,800,000.00
TOTAL	\$90,800,000.00	\$1,895,000,000.00	\$1,985,800,000.00

(a) Bonds were issued by the California Statewide Communities Development Authority pursuant to Title 1, Chapter 5, Division 7, Article 4 (commencing with Section 6584) of the Government Code of the State of California.

**SCHEDULE OF DEBT SERVICE REQUIREMENTS FOR  
SPECIAL REVENUE FUND SELF LIQUIDATING BONDS  
(ECONOMIC RECOVERY BONDS)  
FIXED RATE, AS OF JUNE 30, 2012**

FISCAL YEAR ENDING JUNE 30	CURRENT DEBT		
	INTEREST	PRINCIPAL (a)	TOTAL
2013	\$253,149,635.00	\$476,470,000.00	\$729,619,635.00
2014	228,578,530.00	500,470,000.00	729,048,530.00
2015	202,392,798.75	525,615,000.00	728,007,798.75
2016	175,020,005.00	556,690,000.00	731,710,005.00
2017	150,294,300.00	528,985,000.00	679,279,300.00
2018	133,645,576.25	249,100,000.00	382,745,576.25
2019	113,267,497.50	592,955,000.00	706,222,497.50
2020	86,361,762.50	496,145,000.00	582,506,762.50
2021	61,465,062.50	507,445,000.00	568,910,062.50
2022	36,925,093.75	451,575,000.00	488,500,093.75
2023	12,571,250.00	500,000,000.00	512,571,250.00
2024	35,625.00	1,500,000.00	1,535,625.00
<b>TOTAL</b>	<b>\$1,453,707,136.25</b>	<b>\$5,386,950,000.00</b>	<b>\$6,840,657,136.25</b>

(a) Includes scheduled mandatory sinking fund payments.

**SCHEDULE OF DEBT SERVICE REQUIREMENTS FOR  
SPECIAL REVENUE FUND SELF LIQUIDATING BONDS  
(ECONOMIC RECOVERY BONDS)  
VARIABLE RATE, AS OF JUNE 30, 2012**

FISCAL YEAR ENDING JUNE 30	CURRENT DEBT		
	INTEREST (a)	PRINCIPAL (b)	TOTAL
2013	\$ 24,752,339.78	\$ -	\$ 24,752,339.78
2014	24,746,384.25	-	24,746,384.25
2015	22,821,959.25	-	22,821,959.25
2016	20,901,441.72	-	20,901,441.72
2017	20,898,558.28	-	20,898,558.28
2018	20,900,000.00	25,000,000.00	45,900,000.00
2019	19,404,931.51	115,000,000.00	134,404,931.51
2020	13,506,510.22	189,500,000.00	203,006,510.22
2021	5,628,230.49	240,155,000.00	245,783,230.49
2022	1,367,860.84	219,190,000.00	220,557,860.84
2023	294,907.88	134,620,000.00	134,914,907.88
2024	26,633.88	76,535,000.00	76,561,633.88
<b>TOTAL</b>	<b>\$ 175,249,758.10</b>	<b>\$ 1,000,000,000.00</b>	<b>\$ 1,175,249,758.10</b>

(a) The estimate of future interest payments is based on rates in effect as of June 30, 2012. The interest rates for the bonds range from 0.14% - 0.20%. \$500,000,000 of the series 2009B ERBs bear interest at fixed rates ranging from 3.50% - 5.00% until reset date, and are assumed to bear interest at the rate of 4.00% from each reset date to maturity.

(b) Includes scheduled mandatory sinking fund payments.

**SCHEDULE OF DEBT SERVICE REQUIREMENTS  
FOR GENERAL FUND NON-SELF LIQUIDATING BONDS  
FIXED RATE, AS OF JUNE 30, 2012**

FISCAL YEAR ENDING JUNE 30	CURRENT DEBT		
	INTEREST (a)	PRINCIPAL (b)	TOTAL
2013	\$3,815,124,209.34	\$1,596,085,000.00	\$5,411,209,209.34
2014	3,753,599,199.74	2,331,450,000.00	6,085,049,199.74
2015	3,644,249,741.35	2,490,295,000.00	6,134,544,741.35
2016	3,526,643,073.85	2,408,090,000.00	5,934,733,073.85
2017	3,413,720,119.94	2,061,320,000.00	5,475,040,119.94
2018	3,315,413,284.27	1,965,845,000.00	5,281,258,284.27
2019	3,215,569,808.12	2,109,105,000.00	5,324,674,808.12
2020	3,085,919,906.47	2,447,610,000.00	5,533,529,906.47
2021	2,974,715,765.31	2,123,575,000.00	5,098,290,765.31
2022	2,859,495,888.54	2,457,740,000.00	5,317,235,888.54
2023	2,741,933,585.83	2,006,355,000.00	4,748,288,585.83
2024	2,644,971,455.64	1,801,600,000.00	4,446,571,455.64
2025	2,554,252,336.94	1,973,070,000.00	4,527,322,336.94
2026	2,451,300,583.05	2,114,460,000.00	4,565,760,583.05
2027	2,334,383,452.49	2,244,565,000.00	4,578,948,452.49
2028	2,225,059,558.22	2,293,845,000.00	4,518,904,558.22
2029	2,110,700,080.10	2,322,960,000.00	4,433,660,080.10
2030	1,995,351,831.81	2,534,000,000.00	4,529,351,831.81
2031	1,852,272,573.06	2,626,415,000.00	4,478,687,573.06
2032	1,724,825,965.65	2,416,415,000.00	4,141,240,965.65
2033	1,593,876,448.76	2,496,760,000.00	4,090,636,448.76
2034	1,464,702,894.75	3,428,225,000.00	4,892,927,894.75
2035	1,228,154,341.10	3,170,320,000.00	4,398,474,341.10
2036	1,039,428,692.01	2,720,030,000.00	3,759,458,692.01
2037	868,538,965.62	2,750,160,000.00	3,618,698,965.62
2038	703,674,500.69	2,693,625,000.00	3,397,299,500.69
2039	570,700,370.20	3,187,270,000.00	3,757,970,370.20
2040	305,449,243.75	1,603,885,000.00	1,909,334,243.75
2041	147,377,375.00	2,190,000,000.00	2,337,377,375.00
2042	45,457,375.00	1,319,000,000.00	1,364,457,375.00
<b>TOTAL</b>	<b>\$64,207,222,626.60</b>	<b>\$69,884,075,000.00</b>	<b>\$134,091,297,626.60</b>

(a) The amounts do not reflect offsets due to subsidy payments from the federal government for BABs or transfers from special funds.

BABs subsidies received by the State are not pledged to the repayment of debt service.

(b) Includes scheduled mandatory sinking fund payments.

**SCHEDULE OF DEBT SERVICE REQUIREMENTS  
FOR GENERAL FUND NON-SELF LIQUIDATING BONDS  
VARIABLE RATE, AS OF JUNE 30, 2012**

FISCAL YEAR ENDING JUNE 30	CURRENT DEBT		
	INTEREST (a)(b)	PRINCIPAL (c)	TOTAL
2013	\$34,618,095.97	\$-	\$34,618,095.97
2014	34,577,981.53	-	34,577,981.53
2015	34,577,981.53	-	34,577,981.53
2016	34,597,936.64	32,000,000.00	66,597,936.64
2017	34,441,974.63	326,945,000.00	361,386,974.63
2018	33,625,001.05	431,245,000.00	464,870,001.05
2019	32,574,478.13	197,450,000.00	230,024,478.13
2020	32,017,531.17	184,250,000.00	216,267,531.17
2021	31,547,556.16	108,600,000.00	140,147,556.16
2022	31,353,222.05	58,000,000.00	89,353,222.05
2023	31,223,970.16	88,200,000.00	119,423,970.16
2024	31,037,416.59	270,600,000.00	301,637,416.59
2025	30,546,000.16	174,200,000.00	204,746,000.16
2026	30,209,060.85	318,000,000.00	348,209,060.85
2027	29,690,922.47	46,100,000.00	75,790,922.47
2028	29,579,344.61	49,700,000.00	79,279,344.61
2029	29,451,485.75	70,900,000.00	100,351,485.75
2030	29,283,740.16	73,800,000.00	103,083,740.16
2031	29,099,081.70	76,700,000.00	105,799,081.70
2032	28,914,458.59	79,800,000.00	108,714,458.59
2033	28,720,419.86	82,700,000.00	111,420,419.86
2034	28,536,596.63	1,600,000.00	30,136,596.63
2035	28,534,190.00	-	28,534,190.00
2036	28,534,197.32	-	28,534,197.32
2037	28,534,182.68	-	28,534,182.68
2038	28,534,190.00	-	28,534,190.00
2039	28,534,190.00	505,000,000.00	533,534,190.00
2040	1,549.57	1,000,000.00	1,001,549.57
<b>TOTAL</b>	<b>\$832,896,755.96</b>	<b>\$3,176,790,000.00</b>	<b>\$4,009,686,755.96</b>

(a) The estimate of future interest payments is based on rates in effect as of June 30, 2012. The interest rates for the daily and weekly rate bonds range from 0.11% - 1.33%. The 2009 Stem Cell Bonds currently bear interest at a fixed rate of 5.65% until reset date, and are assumed to bear that rate from reset until maturity.

(b) The amounts do not reflect offsets due to subsidy payments from the federal government for BABs or transfers from special funds. BABs subsidies received by the State are not pledged to the repayment of debt service.

(c) Includes scheduled mandatory sinking fund payments for the 2009 Stem Cell Bonds.

**SCHEDULE OF DEBT SERVICE REQUIREMENTS  
FOR ENTERPRISE FUND SELF LIQUIDATING BONDS  
FIXED RATE, AS OF JUNE 30, 2012**

FISCAL YEAR ENDING JUNE 30	CURRENT DEBT		
	INTEREST	PRINCIPAL (a)	TOTAL
2013	\$47,814,853.50	\$82,195,000.00	\$130,009,853.50
2014	44,406,243.75	104,110,000.00	148,516,243.75
2015	41,128,748.08	77,565,000.00	118,693,748.08
2016	38,115,191.63	75,620,000.00	113,735,191.63
2017	35,414,507.50	61,895,000.00	97,309,507.50
2018	32,727,509.65	60,655,000.00	93,382,509.65
2019	29,906,176.16	62,930,000.00	92,836,176.16
2020	27,765,621.25	28,865,000.00	56,630,621.25
2021	26,402,666.25	20,320,000.00	46,722,666.25
2022	25,453,306.28	14,380,000.00	39,833,306.28
2023	24,811,378.75	12,160,000.00	36,971,378.75
2024	24,174,391.25	16,075,000.00	40,249,391.25
2025	23,316,391.05	21,135,000.00	44,451,391.05
2026	22,292,511.05	22,805,000.00	45,097,511.05
2027	21,181,948.65	24,695,000.00	45,876,948.65
2028	19,997,457.80	25,835,000.00	45,832,457.80
2029	18,377,697.80	42,275,000.00	60,652,697.80
2030	16,216,908.69	48,325,000.00	64,541,908.69
2031	13,861,787.28	50,490,000.00	64,351,787.28
2032	11,371,757.50	53,235,000.00	64,606,757.50
2033	8,761,341.25	55,095,000.00	63,856,341.25
2034	6,889,425.00	22,940,000.00	29,829,425.00
2035	5,786,720.00	23,560,000.00	29,346,720.00
2036	4,731,100.00	21,210,000.00	25,941,100.00
2037	3,670,842.50	23,885,000.00	27,555,842.50
2038	2,756,210.00	15,590,000.00	18,346,210.00
2039	2,028,212.50	16,330,000.00	18,358,212.50
2040	1,257,530.00	17,110,000.00	18,367,530.00
2041	450,087.50	17,925,000.00	18,375,087.50
2042	28,050.00	350,000.00	378,050.00
2043	9,562.50	375,000.00	384,562.50
<b>TOTAL</b>	<b>\$581,106,135.12</b>	<b>\$1,119,935,000.00</b>	<b>\$1,701,041,135.12</b>

(a) Includes scheduled mandatory sinking fund payments.



**SCHEDULE OF DEBT SERVICE REQUIREMENTS  
FOR LEASE-REVENUE DEBT  
FIXED RATE, AS OF JUNE 30, 2012**

FISCAL YEAR ENDING JUNE 30	CURRENT DEBT		
	INTEREST (a)	PRINCIPAL (b)	TOTAL
2013	\$588,211,406.14	\$495,885,000.00	\$1,084,096,406.14
2014	562,355,180.33	545,525,000.00	1,107,880,180.33
2015	535,011,882.69	600,455,000.00	1,135,466,882.69
2016	505,478,008.53	608,010,000.00	1,113,488,008.53
2017	475,165,753.43	624,125,000.00	1,099,290,753.43
2018	443,957,917.82	649,110,000.00	1,093,067,917.82
2019	411,617,282.80	622,425,000.00	1,034,042,282.80
2020	380,238,821.61	607,945,000.00	988,183,821.61
2021	350,749,241.58	561,295,000.00	912,044,241.58
2022	322,076,167.33	549,065,000.00	871,141,167.33
2023	295,580,984.50	501,755,000.00	797,335,984.50
2024	270,538,728.63	433,195,000.00	703,733,728.63
2025	247,881,520.06	456,025,000.00	703,906,520.06
2026	224,236,418.32	461,710,000.00	685,946,418.32
2027	199,342,898.85	486,595,000.00	685,937,898.85
2028	173,311,225.88	496,905,000.00	670,216,225.88
2029	147,477,551.29	456,180,000.00	603,657,551.29
2030	122,654,635.59	443,935,000.00	566,589,635.59
2031	98,331,119.99	406,260,000.00	504,591,119.99
2032	75,086,453.99	398,175,000.00	473,261,453.99
2033	54,223,334.95	285,255,000.00	339,478,334.95
2034	36,028,902.23	270,050,000.00	306,078,902.23
2035	18,051,878.37	239,130,000.00	257,181,878.37
2036	6,518,031.25	64,080,000.00	70,598,031.25
2037	3,338,137.50	67,265,000.00	70,603,137.50
<b>TOTAL</b>	<b>\$6,547,463,483.66</b>	<b>\$11,330,355,000.00</b>	<b>\$17,877,818,483.66</b>

(a) The amounts do not reflect offsets due to subsidy payments from the federal government for BABs or transfers from special funds. BABs subsidies received by the State are not pledged to the repayment of debt service.

(b) Includes scheduled mandatory sinking fund payments.

**ESTIMATED DEBT SERVICE REQUIREMENTS  
ON INTENDED SALES OF AUTHORIZED BUT UNISSUED BONDS  
DURING FISCAL YEARS 2012-13 AND 2013-14**

FISCAL YEAR ENDING JUNE 30	FY 2012-13 GO SALES DEBT SERVICE	FY 2013-14 GO SALES DEBT SERVICE	FY 2012-13 LRB SALES DEBT SERVICE	FY 2013-14 LRB SALES DEBT SERVICE	TOTAL DEBT SERVICE ALL SALES
2013	\$20,015,300	\$-	\$15,013,976	\$-	\$35,029,276
2014	247,554,100	58,397,513	72,061,831	14,482,643	392,496,086
2015	247,555,625	326,654,463	72,062,713	164,219,765	810,492,565
2016	247,554,150	326,650,038	72,067,165	164,222,853	810,494,205
2017	247,554,538	326,652,313	72,062,864	164,218,839	810,488,553
2018	247,550,913	326,652,613	72,067,370	164,221,048	810,491,943
2019	247,552,625	326,651,913	72,067,778	164,222,411	810,494,726
2020	247,553,488	326,651,075	72,066,420	164,220,333	810,491,315
2021	247,552,000	326,650,025	72,065,631	164,222,353	810,490,009
2022	247,551,775	326,653,475	72,067,151	164,224,826	810,497,228
2023	247,555,788	326,650,663	72,067,846	164,224,248	810,498,544
2024	247,551,700	326,655,363	72,064,343	164,216,706	810,488,111
2025	247,552,388	326,655,538	72,068,279	164,222,649	810,498,853
2026	247,554,675	326,653,925	72,065,700	164,221,600	810,495,900
2027	247,555,600	326,652,800	72,068,131	164,223,085	810,499,616
2028	247,556,563	326,648,500	72,066,264	164,215,973	810,487,299
2029	247,553,863	326,651,913	72,066,155	164,223,614	810,495,544
2030	247,553,275	326,652,875	72,063,269	164,223,174	810,492,593
2031	247,550,263	326,651,000	72,068,081	164,221,818	810,491,161
2032	247,554,763	326,655,088	72,065,589	164,215,928	810,491,366
2033	247,551,188	326,652,888	72,065,800	164,221,104	810,490,979
2034	247,558,850	326,651,813	72,063,610	164,221,634	810,495,906
2035	247,551,213	326,648,113	72,063,434	164,221,805	810,484,564
2036	247,551,850	326,652,350	72,069,231	164,219,719	810,493,150
2037	247,558,188	326,653,688	72,064,963	164,217,568	810,494,405
2038	247,552,325	326,655,950	72,064,588	164,221,761	810,494,624
2039	247,556,163	326,651,675	-	164,217,259	738,425,096
2040	247,550,650	326,652,488	-	-	574,203,138
2041	247,556,425	326,653,738	-	-	574,210,163
2042	247,553,075	326,649,725	-	-	574,202,800
2043	247,555,088	326,648,713	-	-	574,203,800
2044	-	326,647,338	-	-	326,647,338
<b>TOTAL</b>	<b>\$7,446,628,400</b>	<b>\$9,857,959,563</b>	<b>\$1,816,658,180</b>	<b>\$4,120,004,710</b>	<b>\$23,241,250,853</b>





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