Bond Case Briefs

Municipal Finance Law Since 1971

California's Brown Backs Fiscal Restraint Cheered by Wall Street.

- **With reserves swelling, state eyes potential risks ahead**
- **Backed by financial turnaround, bonds trade near AAA yields**

California is raking in cash from surging stocks and is sitting on billions in reserves. Governor Jerry Brown is resisting the urge to spend it all, keeping with the fiscal restraint that's won applause from Wall Street.

The Democrat's proposed budget for the next fiscal year, released Wednesday, holds spending in line with the pace of revenue growth for the biggest U.S. state as the stock market hovers at record highs and its economy faces potential fallout from the federal tax overhaul enacted last month. It boosts the rainy day fund to $13.5 billion with a supplemental transfer of $3.5 billion.

"We've had 10 recessions since World War II and we have to get ready for the 11th," Brown said in a briefing in Sacramento. "The whole point is to think ahead and minimize the pain that is coming because of the way our business cycle works."

Brown, who took office in 2011 while the state was still reeling from the effects of the recession, has strove to keep more of a cushion for future downturns, a theme he kept in his last proposed budget as governor. He boosted reserves by 27 percent to $8.5 billion in this year's $126 billion plan.

The additional deposit in the coming year would make the rainy day fund fully meet the constitutional goal of saving 10 percent of tax revenue. His budget indicated that California also plans to slow the pace of general-obligation bond sales to about $2.5 billion over next six months, down from $3.4 billion estimated under the current budget. He proposed $1.6 billion of sales in the second half of the year.

Obstacles ahead include possible federal setbacks ranging from the effects of the recently enacted tax overhaul — which will fall heavily on some residents by capping state and local tax deductions — to the potential loss of funding for children's health insurance, the state said in budget documents released Wednesday.

Bond buyers have rewarded the fiscal turnaround in California, which has been boosted to the fourth-highest rank by the three major rating companies, its best standing since the turn of the century. The extra interest, or spread, investors demand to hold California 10-year bonds instead of top-rated debt is 0.09 percentage point and hit as little as 0.06 percentage point last month, the lowest since at least 2013. The spread was as high as 0.67 percentage point in June 2013, data compiled by Bloomberg show.

Investors have welcomed the government's restraint, given the state's vulnerability to booms and busts. California draws a large share of taxes from wealthy residents whose incomes are tied closely to the stock market, which saddled the state with huge budget deficits after the Internet and real estate bubbles burst. The top 1 percent of earners accounted for nearly half of the state's personal income-tax collections in 2015.

Bloomberg Markets

By Romy Varghese

January 10, 2018, 6:00 AM PST Updated on January 10, 2018, 11:34 AM PST

Copyright © 2024 Bond Case Briefs | bondcasebriefs.com