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California Considers Bonds to Boost Economy as Buyers Crave Debt.

- **Legislative proposal would sell at least \$5 billion in debt**
- **Demand for California bonds outstrips supply amid low rates**

California could issue billions of dollars in debt under a legislative blueprint designed to jump start its economy ravaged by the coronavirus pandemic.

While the main plank of the stimulus plan is a proposal to give people and businesses an incentive to pay their income taxes years ahead of time, a securitization portion would have the state sell bonds backed by revenue from a 2017 gasoline tax increase, the state's cap and trade program for emissions of greenhouse gases, and fees the California Public Utilities Commission levies on broadband services.

The plan also calls for speeding up sales of general-obligation bonds that voters have already approved but have yet to occur. No size has been set but gas-revenue debt sales could total \$5 billion. Lawmakers have until Aug. 31 to pass the proposal.

Generally, issuing debt for infrastructure instead of paying cash during a downturn "is a smart idea" for states to free up resources and help the economy at the same time, said Josh Goodman, senior officer with the state fiscal health project at the Pew Charitable Trusts. California bond investors eager to shelter their income from taxes may snap up the new supply, given demand is outstripping bonds for sale. There's about \$1.9 billion less in available California securities than the amount likely to be reinvested from maturing debt, according to data compiled by Bloomberg.

"If the market is right and interest rates are low and there's a need to help stimulate the economy, now's not a bad time to be in the market pricing debt," said Howard Cure, head of municipal research at Evercore Wealth Management.

Unsold Bonds

Democratic leaders in both chambers see the proposal as a way to rejuvenate the economy, protect small businesses and provide services to people hard hit by the downturn, such as the unemployed, undocumented immigrants and working parents, without raising taxes.

The biggest pool to be bonded may be the revenue from gas taxes and vehicle fees that generate about \$5 billion annually. It is unclear yet how much the state could securitize from cap and trade or broadband revenues, California Deputy Treasurer Tim Schaefer said.

The state has the authority to issue about \$31.8 billion unsold bonds, some dating back to 1960, about 20% of the \$158.5 billion approved by voters. California has about \$72.3 billion in general-obligation debt outstanding.

Although Governor Gavin Newsom's office hasn't commented on the legislative proposal, the

Democrat said during an unrelated news briefing Aug. 12 that “we have a lot of projects that are ready to go and permitted. It can happen. All we need is to move that money out a little bit faster.”

Evercore’s Cure said that based on the state’s wealth and population, California could handle more debt, but he cautioned that officials should ensure there’s enough revenue to back it as they grapple with the effect of the public health crisis. The state is banking on federal aid that hasn’t materialized yet to help close its two-year shortfall of \$54 billion.

“I think California and every state has to be somewhat careful about adding more fixed costs when they don’t know the extent of damage to their budgets,” he said. “So as long as they have specified revenues going to pay the debt and you’re comfortable with that, that’s fine. But just to make general obligation or appropriation debt in an era when they’re running big operating deficits, you have to be careful about that.”

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