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WSJ: California Sells $764 Million in Debt.

California sold $764 million in debt Tuesday at lower-than-expected interest rates, a vote of investor confidence in the state's improved finances.

Tuesday's sale shows municipal bond-market participants no longer view the state as "a distressed credit," said Dan Genter, president and chief investment officer of RNC Genter Capital Management in Los Angeles, which oversees about $2 billion in municipal investments. RNC Genter didn't plan to buy any of California's new debt Tuesday, Mr. Genter said, because it could buy the state's outstanding debt at more attractive yields.

California sold its bonds through a competitive process, in which banks bid for blocks of bonds through an auction, then usually reoffer the debt to investors. Citigroup Inc. bought $249 million of the debt, with bonds maturing in one to 10 years. A 10-year bond had at a yield of 3.41%, lower than the 3.49% at which the state's outstanding 10-year debt traded Monday, according to Thomson Reuters Municipal Market Data.

J.P. Morgan Chase & Co. purchased the remaining $515 million, reoffering maturities ranging from 11 to 20 years to investors. A 20-year bond had a yield of 4.80%, lower than the 4.86% at which the state's outstanding 20-year debt traded Monday, according to MMD.

"We're extremely pleased with the outcome," said Tom Dresslar, spokesman for California Treasurer Bill Lockyer. "We consider the rates excellent for taxpayers."

The additional yield, or premium, that California offers on its debt compared with triple-A rated municipal bonds has shrunk over the past year, in light of the state's better finances as well as the passage of an income-tax increase in November 2012, which made the state's tax-exempt municipal debt more appealing. This time last year, the yield premium on 10-year California debt was 0.71 percentage point, according to MMD. As of Monday's close, the premium for the state's 10-year debt was 0.53 percentage point, and in Tuesday's sale, the premium for a California 10-year bond was 0.45 percentage point.

Proceeds of Tuesday's sale will be used for financing new capital projects, as well as to refund older debt with higher interest rates, according to the state treasurer's office. The bond sale comes on the heels of a successful $5.5 billion short-term debt sale earlier this month, in which California sold notes maturing next year at record-low interest rates for the state. California has ratings of A1 from Moody's Investors Service and single-A from Standard & Poor's Ratings Services as well as Fitch Ratings. One of the municipal bond market's most frequent debt issuers, California last sold long-term debt in April, with a $2.6 billion deal, according to Ipreo LLC.

The California bond sale comes against a challenging municipal-bond market environment, in which bond prices have generally been falling, thanks in part to Detroit's record municipal bankruptcy filing last month. Concerns about the Federal Reserve reducing its support of the bond markets amid the slowly improving economy have hurt prices across debt markets since May. Investors have also taken a net $20.7 billion out of weekly reporting municipal bond mutual funds over the last 13 weeks, according to Lipper FMI.

Once a municipal bond market problem child, with delayed budgets and deficits in the tens of billions of dollars, California lately has seen its fiscal picture brighten. The state is no longer the lowest-rated U.S. state, and its credit rating has been raised twice this year, once by S&P in January and by Fitch this month. California expects to end its current fiscal year with a surplus, and for the third year in a row, the state has passed its budget on time.

Furthermore, California's unemployment rate, which was 8.7% in July, dropped over the past year, while its housing market—which took a big hit in the wake of the financial crisis—is on the mend.