

# **Bond Case Briefs**

*Municipal Finance Law Since 1971*

---

## **California Topples New York to Reclaim Sales Crown: Muni Credit.**

California is poised to reclaim its spot as the biggest borrower in the municipal market after an improving budget outlook propelled the state's debt in a year when taxes rose for its wealthiest residents.

California and its localities have sold \$46.2 billion of long-term bonds in 2013 through Dec. 20, up about 13 percent from last year's pace, data compiled by Bloomberg show. That puts the Golden State atop New York for the first time since 2010. New York bond sales have dropped 18 percent this year to \$36.4 billion.

The world's 10th-largest economy, California has seen its fiscal health recover with an infusion of higher income and sales levies approved last year by voters, capital-gains tax revenue generated by profits in stocks and spending restraint by Governor Jerry Brown and lawmakers in Sacramento. The state, which paid its bills in 2009 with IOUs, expects to end this fiscal year with a \$2.2 billion surplus.

"They've really gotten their fiscal house in order," said Peter Hayes, head of municipal bonds at New York-based BlackRock Inc., which oversees about \$108 billion in local debt. "Now that the economy is stronger, they feel more confident that strength is sustainable, and that gives them the confidence to borrow."

No Hindrance

With the brighter financial outlook and the strongest economy since at least 1979, the state's debt costs tumbled this year even with the issuance increase. Standard & Poor's raised California's rating to A, its sixth-highest level, in January. It was the first time S&P lifted the state since 2006.

Investors demanded as little as 0.3 percentage point of extra yield to buy California debt instead of benchmark munis in October, the least since 2008, Bloomberg data show. The state's bonds are on pace to beat the \$3.7 trillion local-debt market for a fourth straight year, the longest streak since 1999, S&P data show. While the whole market has lost 2.6 percent this year, California debt is down 1.9 percent.

"No one wants to be the last one into this trade when it starts happening," said Eric Friedland, head of municipal credit research in New York at Schroder Investment Management North America. The company oversees about \$4 billion in local debt. "You're at this point now where even though the state isn't perfect, there's really little more for it to come in."

No. 1

The state of 38 million people had \$103 billion of gross tax-supported debt in 2012, the most among U.S. states, according to Moody's Investors Service.

California sold \$8.4 billion of general-obligation bonds in 2013, up from \$5.6 billion in 2012 and \$5 billion in 2011, Bloomberg data show. The state sold \$10.5 billion in 2010, the last year of the Build America Bonds program created under President Barack Obama's 2009 economic stimulus plan.

The state may offer \$3 billion or more of general obligations by the June 30 end of its fiscal year, according to estimates from Treasurer Bill Lockyer in September. He also said he expects the state will issue about \$5 billion of general obligations and \$2 billion of lease-revenue securities in the following fiscal period.

"We don't imagine the market will have trouble absorbing the volume," Tom Dresslar, Lockyer's spokesman, said in an e-mail. "As long as California keeps strengthening its fiscal condition, we're confident our bonds will continue to perform well."

### Tollway Financing

This year's largest muni sale from a California local government was by the Foothill/Eastern Transportation Corridor Agency, which operates toll roads in Orange County. The issuer borrowed \$2.3 billion this month to extend maturities and reduce debt costs as revenue trails projections.

In the market for new debt, issuers nationwide have scheduled about \$3.9 billion of sales in the next 30 days, less than half the average for 2013. The largest California sale on the calendar is a \$75 million tax-exempt offer next month from a utility authority in Santa Paula, northwest of Los Angeles, Bloomberg data show.

Localities are borrowing as yields on AAA 10-year munis are close to a three-month high, at 2.94 percent, Bloomberg data show. That compares with 2.99 percent on similar-maturity Treasuries.

The ratio of the yields, a measure of relative value, is about 98 percent, the lowest since June. The smaller the number, the more expensive munis are compared with federal securities.

By Michael B. Marois and Brian Chappatta Dec 26, 2013 5:00 PM PT

To contact the reporters on this story: Michael B. Marois in Sacramento at [mmarois@bloomberg.net](mailto:mmarois@bloomberg.net); Brian Chappatta in New York at [bchappatta1@bloomberg.net](mailto:bchappatta1@bloomberg.net)

To contact the editor responsible for this story: William Glasgall at [wglasgall@bloomberg.net](mailto:wglasgall@bloomberg.net)