

Bond Case Briefs

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California \$4 Billion School-Bond Push in Jeopardy: Muni Credit.

California lawmakers are pressing to add a \$4.3 billion school-bond measure to a November ballot already crowded with a \$7.1 billion proposal to sell debt to ease a crippling drought.

The school bill, pending in the senate, would fund a program created in 1998 that's responsible for building more than 55,000 classrooms, according to Assemblywoman Joan Buchanan, a Democrat. While Governor Jerry Brown would have to sign the measure into law to put it on the ballot, his finance office says the most-populous state shouldn't take on more debt.

Investors in the \$3.7 trillion municipal market see a potential missed opportunity, given that California's bond costs have fallen to pre-recession levels as the state enjoys a record surplus and its highest debt rating since 2001.

"Borrowing costs are the lowest they've been in a decade for the state," said Michael Johnson, managing partner at Gurtin Fixed Income Management LLC, which oversees \$9.3 billion in Solana Beach, California. "If it's out there, the market is definitely buying it."

California voters have approved about \$35 billion in general-obligation bonds since 1998 to build or renovate public-school classrooms. The last was in 2006, for \$10.4 billion of general obligations. Those funds have dried up, leaving the state with no new construction funds for the last two years, according to Buchanan's office.

No Position

Brown, a 76-year-old Democrat seeking re-election in November, hasn't taken a position on the school-bond measure, said Evan Westrup, his spokesman. Last week, he signed a bill to place a measure on the November ballot asking voters to approve bonds for water projects as the state grapples with a third year of drought.

The governor has made reducing budget costs a centerpiece of his administration since taking office in 2011. A surge in revenue, mostly from capital gains and temporary increases on income and sales taxes, has taken the state from a \$25 billion deficit three years ago to a record surplus.

Moody's Investors Service raised California to Aa3 in June, the fourth-highest grade and the highest since 2001.

The extra yield that buyers demand to own 10-year California debt rather than top-rated securities shrank to 0.22 percentage point this month, the smallest since August 2007, according to data compiled by Bloomberg.

Department's Opposition

Even with the falling interest rates, California's Department of Finance said it opposes the school-

debt proposal.

"It creates new general-fund costs when the administration is focused on paying down existing obligations and saving for a rainy day," the department said in a June analysis of the bill.

In the fiscal year that began in July, the state will pay \$3 billion in debt service on general obligations issued for school projects, the department estimated.

"A new bond would add to those costs, crowding out other state priorities," the department said in the analysis.

Universities already have authority to use state appropriations to issue bonds for construction, the department said. What's more, the existing school-construction program for K-12 is overly complex and costly for the state and local school districts, the department said in its January budget summary.

'Reasonable Expenditure'

Borrowing for education is "a reasonable expenditure" since the state already incurs debt for water projects and high-speed rail construction, Buchanan, a former San Ramon Valley School Board member who sponsored the bill, said in a telephone interview.

About \$3 billion of school construction and upgrades are being stalled by a lack of funding, according to a report from the Sacramento-based Center for Strategic Economic Research.

That work could produce more than 15,000 new jobs, \$990 million in wages, \$100 million in state and local tax revenue and add more than \$2.5 billion to California's economy, the report said.

"General-obligation bonds are a way of dealing with a large investment and dealing with that now and paying it just like a mortgage over a period of time," said Tom Duffy, chief lobbyist for the Coalition for Adequate School Housing in Sacramento. "That has been acceptable under prior administrations."

Campaign Funds

His group has \$459,788 in a campaign account aimed at advancing the ballot measure, with \$81,450 in contributions this year through June, according to state data. Group members include school districts, county offices, architects, developers and construction managers.

Without the bond measure, the fees that districts charge developers to help pay for school construction would rise and would get passed down to buyers of new homes, said Dave Cogdill, president of the Sacramento-based California Building Industry Association.

"If we're successful in getting a bond out of the legislature and signed by the governor, we're very confident that it will be approved by the voters," Cogdill said.

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