

Bond Case Briefs

Municipal Finance Law Since 1971

California Credit Rating Raised After Voters Pass Reserve.

California's credit rating was raised by Standard & Poor's one day after voters in the most indebted U.S. state agreed to bolster a rainy-day fund for fiscal emergencies.

S&P boosted its rating one step to A+, fifth-ranked, the highest since February 2009. Only New Jersey and Illinois have lower ratings.

"This is the fourth upgrade for California by a rating agency in the past two years and it rewards the state for the immense strides it has taken toward fiscal discipline and budget stability since the Great Recession," Treasurer Bill Lockyer said yesterday in a statement.

Credit-rating companies have criticized California for its failure to set aside money when the economy is booming and for relying on volatile capital-gains taxes tied to the performance of the stock market, to finance the general fund, which pays for most core operations.

Proposition 2, championed by Democratic Governor Jerry Brown, sets aside 1.5 percent of general-fund revenue each year into a rainy-day fund, as well as capital-gains taxes that exceed 8 percent of the general fund.

Brown has steered the state to a projected surplus five years after it logged a record deficit. Temporary tax increases and a resurgent economy have fueled the turnaround.

Sixth-Highest

Standard & Poor's last boosted the state's rating in January 2013 to A, its sixth-highest grade and the best since January 2010. Fitch Ratings in August 2013 increased the state's grade to A, also sixth-highest.

Moody's Investors Service raised California's credit in June by one step to Aa3, the fourth-highest level, the state's highest mark with the company since 2001.

Investors demanded as little as 0.25 percentage point of extra yield yesterday to buy 10-year California obligations instead of top-rated municipal bonds, according to data compiled by Bloomberg. The spread was as high as 1.7 percentage points in 2009, when the state resorted to IOUs to pay bills.

Bloomberg

By Michael B. Marois Nov 5, 2014 9:01 PM PT

To contact the reporter on this story: Michael B. Marois in Sacramento at mmarois@bloomberg.net

To contact the editors responsible for this story: Stephen Merelman at smerelman@bloomberg.net
Jeffrey Taylor, Pete Young

