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S&P: Budgeting With Revenues Growing Means California Must Confront Its Past.

California's finances are roaring back. Midway through the fiscal year, the state now expects its fiscal 2015 revenues to come in $2.6 billion—or 2.4%—higher than the budget assumed. History would suggest, however, that any fiscal renaissance will be temporary–the result of several favorable developments occurring simultaneously. A cruder characterization would be that the state is only better off now because it obtained voter consent to raise taxes in the midst of a long-lived bull market for equities. Once the tax increases expire, or if market sentiment turns bearish, the skeptic might assert that the state—along with its credit rating—is condemned to go off a fiscal cliff.

Standard & Poor's Ratings Services sees California's improving finances and credit quality as more than just the result of a cyclical upswing. In November 2014, we raised California's general obligation (GO) debt rating to 'A+'. The move signaled our belief that the state is positioned for a more enduring period of financial stability. It was also the most recent rating revision in a steady progression of favorable adjustments that began in July 2011.

Overview

- California is in the midst of a multi-year fiscal recovery.
- Contrary to popular belief, elimination of prior deficits was mostly accomplished through lower spending, not higher revenues.
- California does not necessarily face a fiscal cliff when its temporary taxes expire.
- The key to avoiding future budget crises is prudent management while revenues are growing strongly.

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