

Bond Case Briefs

Municipal Finance Law Since 1971

California GO Refunding And New Issue Bonds Assigned 'AA-' Rating.

SAN FRANCISCO (Standard & Poor's) Aug. 18, 2015—Standard & Poor's Ratings Services has assigned its 'AA-' long-term rating, and stable outlook, to California's estimated \$1.9 billion of general obligation (GO) bonds, consisting of \$550 million in tax-exempt various purpose GO bonds and \$1.35 billion in GO refunding bonds.

At the same time, Standard & Poor's affirmed its 'AA-' long-term ratings and underlying ratings (SPURs) on California's \$76 billion of GO bonds outstanding, as of July 1, 2015. The outlook on all ratings is stable.

Finally, we affirmed the long-term component of the 'AAA/A-1+' and 'AAA/A-2' ratings on some of the state's GO variable-rate demand bonds. The long-term component of the ratings is based jointly (assuming low correlation) on that of the obligor, California, and the various letter of credit (LOC) providers. The short-term component of the ratings is based solely on the ratings on the LOC providers.

"California's finances have been brought into structural alignment," said Standard & Poor's credit analyst Gabriel Petek. "Under current conditions, the state's fiscal structure generates modest operating surpluses that translate to larger projected budget reserves, according to the state Department of Finance's forecast, than the state has had in recent memory. Still, the state's tendency for revenue volatility coupled with the lack of an automatic process for midyear corrective budget actions — other than the governor declaring a fiscal emergency — constrain our rating on the state," added Mr. Petek.

Aided by temporary tax increases and a six-year bull market for equities, California is enjoying an extended period of strong revenue trends. The Department of Finance recently reported that tax collections for fiscal 2015 topped its updated May forecast by 0.6% on a cash basis. Revenue collections look even stronger when compared with the assumptions included in the original fiscal 2015 budget. On that basis, the state controller reports that tax receipts for the year came in \$6.8 billion (6.4%) higher than projected at the time of budget enactment. In our view, the state's stronger credit quality primarily reflects its much improved fiscal position, which lawmakers have engineered with the help of the multi-year revenue rebound.