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S&P: California's $961 Million GO Bonds Assigned 'AA-' Rating.

SAN FRANCISCO (Standard & Poor's) Oct. 6, 2015–Standard & Poor's Ratings Services has assigned its 'AA-' long-term rating, and stable outlook, to California's estimated $961 million of general obligation (GO) bonds, consisting of $855 million in tax-exempt various purpose GO refunding bonds and $106 million in taxable variable purpose GO bonds.

At the same time, Standard & Poor's affirmed its 'AA-' long-term ratings and underlying ratings (SPURs) on California's $75.6 billion of GO bonds outstanding as of Sept. 1, 2015.

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.

"The GO rating is also based on our view of the state's diverse economy, which is currently expanding faster than the nation's; demonstrated commitment in five consecutive budgets to aligning recurring revenues and expenses while paying down budgetary debts; good budgetary reserves; strong enough overall liquidity that the state's typical intra-year general fund cash deficits can be financed entirely from internal sources; and declining, but still moderately high debt ratios," said Standard & Poor's credit analyst Gabriel Petek.

"Somewhat offsetting these strengths, in our view, are the state's persistently high cost of housing relative to other states that contributes to a relatively weaker business climate in California, volatile revenue base, large retirement benefit liabilities, limited prefunding of retiree health care benefits to date, and large backlog of deferred maintenance and infrastructure needs across the state," added Mr. 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. Passage of Proposition 2 in 2014 helped institutionalize a more disciplined approach by requiring annual deposits to the reserve fund. In addition, the measure captures capital gains-related revenue spikes, thereby discouraging the state from building instances of extraordinary revenue growth into its budget base. The state has also restored considerable fiscal flexibility by retiring much of its budgetary debt.