Bond Case Briefs

Municipal Finance Law Since 1971

S&P: After a Strong Run, California's Budget Stability is Likely to be Tested.

Governor Jerry Brown's emphasis on fiscal reform in the midst of an economic expansion has brought about a turnaround in California's finances that is unmatched among the states since the Great Recession. In the span of five years, S&P Global Ratings has raised California's general obligation debt rating three notches, to AA-/Stable from A-/Negative. The rating upgrades have corresponded with the state's strengthening fiscal condition, aided in our view by improved budget management. Among the key contributors to a stronger financial position have been spending restraint, policy reform, debt repayment, reserve capitalization, and revenue growth.

But given California's boom-and-bust budgetary history, one might be forgiven for wondering if its fiscal recovery will persist. Partly this is because the state's budget has been repaired more by the increased revenues generated by economic growth and stock market gains than by tax reform. In our view, while California's new budget stability reflects more than a cyclical upswing, those old vulnerabilities related to revenue volatility remain. Its recent credit rating progression illustrates our thinking: despite moving a full category up the scale, it is still lower than the ratings on 41 other states.

Overview

- The turnaround in California's finances since 2011 is unmatched among the states.
- Its recovery is the result of structural reform, economic recovery, and the administration's budget management.
- Some of the fiscal reforms will continue to benefit state finances even after Gov. Brown's term ends in 2018.
- California's fiscal recovery represents more than a cyclical upswing, though vulnerabilities related to its propensity for revenue volatility remain.

Continue reading.

19-Sep-2016