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State of California (State Public Works Board): Fitch New Issue Report

The 'AA-' rating on lease revenue bonds, one notch below California's IDR, reflects the slightly higher degree of optionality associated with payment of appropriation debt. Lease revenue bonds are payable from base rental payments made by participating state agencies to the State Public Works Board. Tax revenues are dominated by personal income taxes, which are economically sensitive, particularly those related to capital gains. Long-term growth prospects for revenues are strong, driven by the state's robust economic fundamentals. The state retains the independent legal ability to raise taxes, subject to a legislative supermajority voting requirement. California has a solid ability to reduce spending throughout the economic cycle, although its flexibility is somewhat more restricted than most states due to constitutional requirements for funding education and voter initiatives that limit state discretion. Long-term liabilities, while above the median for U.S. states, remain a moderate burden on the resource base. California's strong budget management during the extended period of economic expansion and revenue growth following the Great Recession allowed the state to materially improve its financial position and enhance its ability to address future fiscal challenges.

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