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California Lawmakers Eye More Than $100 Billion of Borrowing.

- **State lawmakers are considering several large bond measures**
- **State debt service ratio already set to rise to 3.2% from 2.8%**

California is on the verge of a potential borrowing boom as Democratic state lawmakers draft more than $100 billion of municipal-bond proposals to fill funding gaps for several key legislative priorities.

The proposals include $15 billion of debt to make the state more resilient to climate change, $14 billion to modernize schools and $10 billion for affordable housing. Governor Gavin Newsom last year approved a $6.38 billion bond measure for voters to consider on the March ballot which would fund roughly 10,000 new mental health and substance abuse treatment slots.

Although California doesn't cap how much money the state can borrow, Newsom's administration has estimated the state can, at most, take on another $26 billion of bonds without pushing the ratio of annual debt costs compared to general fund revenue high enough to cause credit concerns. California's debt-service ratio is already expected to rise to 3.2% by fiscal year 2026-2027 from about 2.8% now, according to estimates from the state's finance department.

"Our expectation is not that they would issue so much debt that it changes their credit rating," said Karen Krop, senior director of US public finance at Fitch Ratings.

California is rated Aa2 by Moodys Investors Service, AA- by S&P Ratings and AA by Fitch. The state had about $78.5 billion of general obligation and lease revenue bond debt outstanding as of June 30 with another $31.6 billion approved but not yet sold, according state figures.

Though the bond measures currently under consideration by the legislature total more than $100 billion, some of the proposals overlap and are likely to be combined while others won't make it on the ballot at all. In fact, despite lawmakers in the last legislative session introducing bills totaling more than $114 billion of borrowing, only one was approved and that was the mental health measure.

"We're not going to put $100 billion worth of bonds on the ballot," said California Senator Ben Allen, a Democrat who who co-sponsored a climate resiliency bond measure currently making its way through the legislature. "We're not gonna see three different climate bonds on the ballot."

An index of California bonds showed yields trading below those of top-rated debt after Newsom earlier this month projected a $37.9 billion deficit in his budget proposal, a gap that is significantly smaller than had been estimated by the state's fiscal analyst. The yield on California general-obligation bond debt due in 10 years stands at 2.3%, compared to 0.7% in 2021, according to Bloomberg BVAL.

When bonds are approved all the debt isn't sold at once. The state treasurer borrows in piecemeal over a number of years as the funds are needed. During the last five fiscal years, the state has sold an average of $7.3 billion of general obligation bonds annually, according Treasurer Fiona Ma's office.

Whenever the tax-exempt debt is sold, it's expected to be greeted with strong demand by wealthy investors looking to shield some of their income from the state's high taxes, according to Dora Lee, director of research at Belle Haven Investments.

"Even though the debt-service ratio is expected to increase, it remains manageable especially when you take into consideration the state's decision to use prior surpluses to pay down pensions and address other long term obligations," Lee said.

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