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State of California: Fitch New Issue Report

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. However, Proposition 98 school funding requirements also decline relatively quickly when revenues decline, acting as a form of automatic stabilizer during a downturn. Long-term liabilities, while above the median for U.S. states, remain a low burden on the resource base. The state is addressing its pension liabilities with measures including benefit changes, supplemental contributions, and a long-term plan to increase contributions to the teachers' system.

ACCESS REPORT

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