STATE OF CALIFORNIA

# DEBT AFFORDABILITY REPORT

OCTOBER 2012

BILL LOCKYER
California State Treasurer

**Bill Lockyer**
**Treasurer**
**State of California**

October 1, 2012

Fellow Californians:

Our state's workers, families and communities continue to deal with the lingering effects of the deep national economic downturn. But there are signs better times may be ahead.

California's unemployment rate remains higher than the national rate, but in recent months the state has led the nation in creating new private sector jobs. Our housing market is still depressed, but it is beginning to show signs of recovery in most regions of the state. Consumer spending has begun to pick up. State and local government revenues, which suffered a sharp decline over the last five years, continue a slow recovery.

This year's Debt Affordability Report notes once again the share of the State's General Fund devoted to debt payment. The Governor and Legislature have continued a policy of restraint in authorizing new bond sales, balancing the need to continue funding vital infrastructure projects and jobs with the need to hold down growth in State spending. The Governor and Legislature this year also agreed on long-term pension reform, and for the second year in a row fashioned an on-time and balanced State budget, vindicating again voters' 2010 decision to authorize a majority-vote budget. In balancing the budget, the Governor and Legislative have made difficult decisions on both the spending and revenue side of the ledger. These decisions have been well-received by rating agencies and the state's investors, and bode well for the state's continued return to fiscal health.

The 2012 Debt Affordability Report provides useful and straightforward information about the nature and extent of the State's debt. I hope it proves a valuable resource for municipal finance professionals and California policymakers, and all those who want to take a closer look at how the State uses its borrowing authority to meet objectives set by voters, the Legislature and the Governor.

I commend and thank the staff of the State Treasurer's Office as well as our financial advisors and economists. They are professionals who work very hard and well to protect the interests and pocketbooks of Californians. They understand the job they do is important in creating the kind of future California wants and needs.

On their behalf and mine, thank you for the opportunity to serve.

Bill Lockyer

BILL LOCKYER
California State Treasurer

# *Contents*

# *Preface*

Government Code Section 12330 requires the State Treasurer to submit an annual debt affordability report to Governor and Legislature. The report must provide the following information:

- A listing of authorized but unissued debt the Treasurer intends to sell during the current year (2012-13) and the following year (2013-14), and the projected increase in debt service as a result of those sales.
- A description of the market for State bonds.
- An analysis of State bonds' credit ratings.
- A listing of outstanding debt supported by the General Fund and a schedule of debt service requirements for the debt.
- A listing of authorized but unissued bonds that would be supported by the General Fund.
- Identification of pertinent debt ratios, such as debt service to General Fund revenues, debt to personal income, debt to estimated full value of property and debt per capita.
- A comparison of these debt ratios for the State and the 10 most populous states.
- The percentage of the State's outstanding general obligation (GO) bonds comprised of fixed rate bonds, variable rate bonds, bonds that have an effective fixed interest rate through a hedging contract and bonds that have an effective variable interest rate through a hedging contract.
- A description of any hedging contract, the outstanding face value, the effective date, the expiration date, the name and ratings of the counterparty, the rate or floating index paid by the counterparty, and an assessment of how the contract met its objectives.

## NOTES ON TERMINOLOGY

This report frequently uses the words "bonds" and "debt" interchangeably, even when the underlying obligation behind the bonds does not constitute debt subject to limitation under California's constitution. This conforms to the municipal market convention that applies the terms "debt" and "debt service" to a wide variety of instruments, regardless of their precise legal status.

The report references fiscal years without using the term "fiscal year" or "fiscal." For example, 2012-13 means the 2012-13 fiscal year.

When referring to the government the word "State" is capitalized. When referring to California, the word "state" is lower-cased.

# SECTION 1:

# *Market for State Bonds*

The State continues to be one of the largest issuers in the $3 trillion U.S. municipal bond market. The State set a two-year record in calendar years 2009-2010, issuing a total of $30.9 billion of GO bonds. Since 2010, however, the State's GO bond issuance has decreased substantially. In calendar year 2011 and the first half of 2012, the State issued $7.95 billion of GO bonds. Of that total, $3.22 billion generated debt service savings by refunding already outstanding bonds.

The market and price for the State's bonds are affected by factors specific to the State, as well as overall conditions in capital markets. These factors include the economy, general market interest rates, municipal bond supply, investor perception of the State's credit, investor demand and the performance of alternative investments, such as stocks or other debt capital. Overall, given the continued weakness in the economy and concerns regarding European sovereign debt, 2012 has seen a continued flight to quality, with interest rates on U.S. Treasuries continuing to decline. Interest rates on tax-exempt municipal bonds also were affected by these conditions and declined to their lowest levels in July 2012.

From a credit perspective, the State continues to face financial challenges caused by the 2007-09 national recession and California's slow recovery. The economic downturn has left the State with significant revenue declines and large budget gaps. Despite these tough challenges, the Legislature and Governor on June 27, 2012 adopted a balanced budget for 2012-13. This was the second straight year the State adopted an on-time balanced budget following years of protracted stalemates and late budget passage.

To close a $15.7 billion shortfall, the adopted 2012-13 budget cut spending by $8.1 billion. It also included $6 billion of revenue solutions and $2.5 billion of other solutions. The other solutions included loan repayment extensions, transfers and loans from special funds, additional weight fee revenue and payment of unemployment insurance interest. The revenue solutions include additional funds from the Governor's tax initiative, which will be before voters in the Nov. 6, 2012 general election. The Governor's measure, Proposition 30, would raise the 9.3 percent personal income tax rate on high earners to 10.3 percent for joint filers with incomes between $500,000 and $600,000, 11.3 percent for joint filers with incomes between $600,000 and $1 million, and 12.3 percent for joint filers with incomes above $1 million. Proposition 30 also would raise the statewide sales tax rate by 0.25 percent. The personal income tax increases would last seven years, the sales tax hike four years. If approved by voters, the provisions would raise an estimated $8.5 billion for the State General Fund through 2012-13. Since, pursuant to Proposition 98, $2.9 billion would have to be allocated to K-12 schools and community colleges, the estimated net benefit to the General Fund would be $5.6 billion.

To partially address the possibility voters reject Proposition 30, or that it passes but another tax initiative on the Nov. 6 ballot gets more votes, the 2012-13 budget incorporates automatically "triggered" General Fund spending reductions. These automatic cuts of approximately $5.95 billion would go into effect on January 1, 2013. The 2011-12 budget also had triggered spending reductions. Because such provisions give the State a built-in response mechanism when revenues fall short of estimates, investors and rating agencies have viewed them favorably when assessing the State's credit profile.

To provide a better understanding of the market for the State's bonds, the discussion below reviews the larger municipal and taxable bond markets.

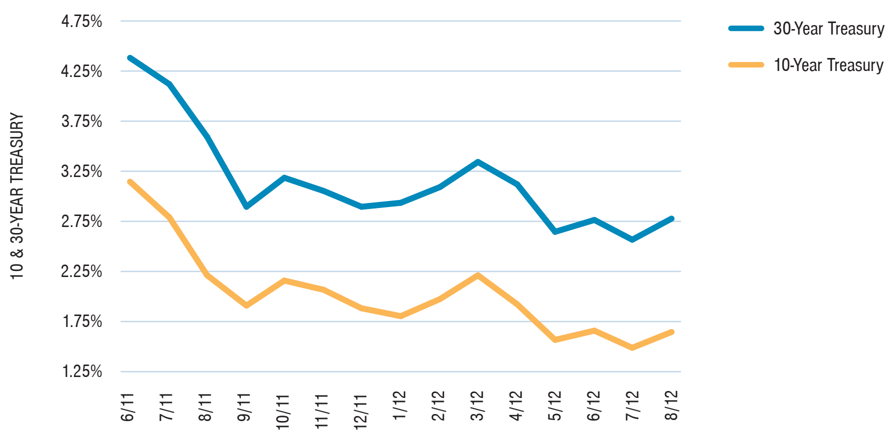
## INTEREST RATES AND ECONOMIC REFUNDINGS

Between July 1, 2011 and August 31, 2012, both U.S. treasury and tax-exempt municipal interest rates generally followed a downward path (see Figures 1 and 2 below). Over this period, the 30-year tax-exempt Municipal Market Data (MMD) index, the industry benchmark, declined by approximately 147 basis points. On July 25, 2012, it reached its lowest level in recorded history. The 10-year MMD index also declined dramatically over this period. The 30-year and 10-year MMD trend lines are displayed in Figure 2.

The State took advantage of these low tax-exempt interest rates to refund $3.22 billion of its outstanding GO bonds to reduce interest costs. These refundings generated $458 million of total debt service savings over the remaining life of the bonds.

### FIGURE 1

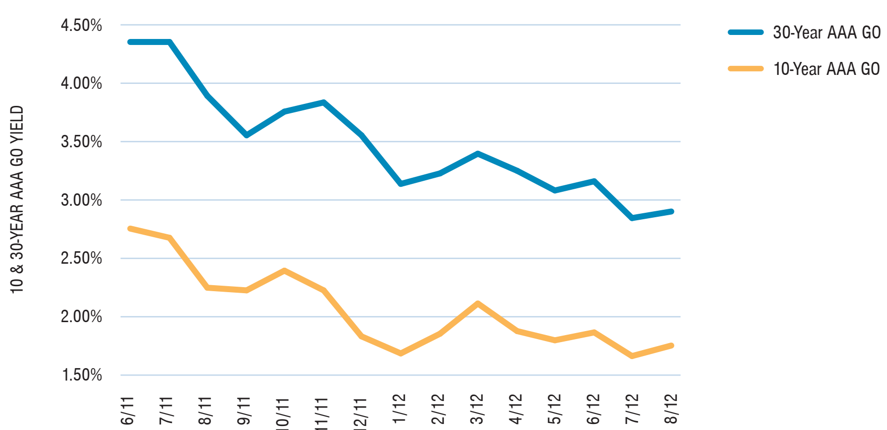
TRENDS OF TREASURY RATES




Source: Thomson Municipal Market Monitor (TM3)

### FIGURE 2

TRENDS OF TAX-EXEMPT INTEREST RATES




Source: Thomson Municipal Market Monitor (TM3)

## SUPPLY AND DEMAND

The supply and demand factors in the municipal market differed significantly in 2011 and 2012. In 2011, supply and demand declined sharply. In contrast, 2012 has seen a substantial increase in both, creating a generally favorable market for municipal bond issuers, as detailed below.

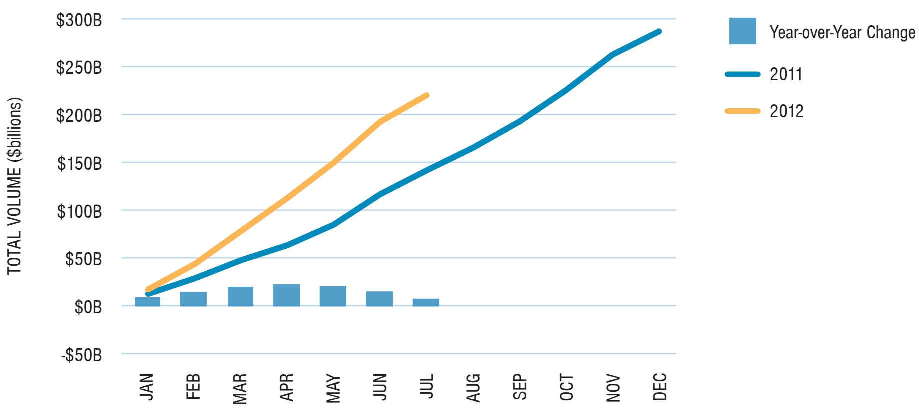
SUPPLY. At $287.72 billion, nationwide municipal bond volume in 2011 fell to its lowest level in 11 years. The drop came largely because issuers, anticipating the expiration of the Build America Bonds (BABs) program at the end of 2010, accelerated their activity in the last months of that year. In fact, municipal bond volume in 2010 hit a record high of $433 billion. The 2011 total fell short of that number by 33.5 percent.

In 2012, however, supply has rebounded. As of July 31, 2012, municipal bond volume has increased by more than 56 percent nationally versus the same period last year and 46 percent in California. As noted above, the attractive interest rate environment has spurred the State and other issuers to sell refunding bonds. As of August 30, 2012, total municipal volume has been comprised of 44 percent refunding issues, 37 percent new-money issues and 19 percent combined refunding and new-money issues.

Figures 3 and 4 present the cumulative volume of national and California municipal bond issuance in 2011 and 2012.

## FIGURE 3

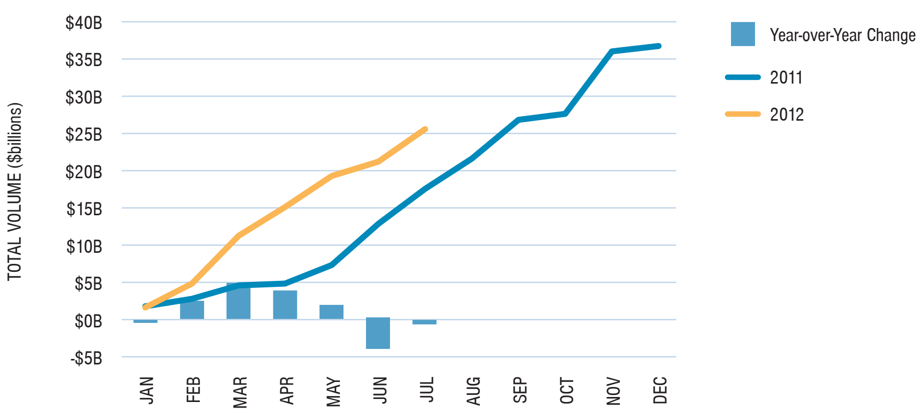
U.S. CUMULATIVE BOND VOLUME, 2011 AND YTD 2012




Source: Thomson Municipal Market Monitor (TM3)

## FIGURE 4

CALIFORNIA CUMULATIVE BOND VOLUME, 2011 AND YTD 2012




Source: Thomson Municipal Market Monitor (TM3)

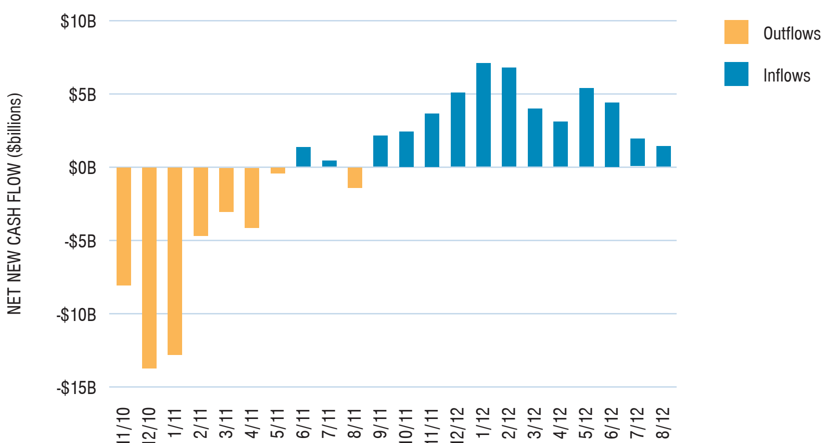
Another important municipal market metric is net supply. Each year, investors redeem billions of dollars of municipal bonds and look to reinvest the money by purchasing more bonds. The new-issue supply usually exceeds these redemptions, which increases opportunities for investors. This year, however, redemptions exceeded new issuance in a number of months, creating a supply-demand balance that has favored issuers.

DEMAND. Based on their tax treatment, tax-exempt bonds have a limited universe of investors. This investor base changed and became even more limited in the aftermath of the 2008 financial crisis. Many non-traditional tax-exempt investors that had been significant participants, such as hedge funds, withdrew from the municipal market. Meanwhile, in calendar years 2009-2010, the two-year authorization period for BABs, taxable investors became a new, large and important municipal investor base. Then, with the expiration of the BABs program as well as the previous withdrawal of the non-traditional investors, the municipal market, beginning in 2011, became significantly more dependent on tax-exempt municipal bond funds and retail investors. However, from late 2010 through the first half of 2011, municipal bond mutual funds lost a significant amount of assets (approximately $44 billion). That suppressed demand for tax-exempt municipal bonds. The negative cash flow began to reverse itself in late 2011, and the improvement has continued to the present. As shown in Figure 5, the performance of tax-exempt municipal bond funds has improved dramatically. As of August 22, 2012, inflows into municipal bond funds were positive for 46 consecutive weeks, and injected into the funds $41.6 billion of assets. In addition, as of August 29, 2012, California bond funds had 23 consecutive weeks of net inflows and added more than $2.1 billion of assets. These positive inflows have been attributed to the volatility and underperformance of other investment markets (including equity, commodities and international fixed income), the relative health of the U.S. economy among industrialized countries, and concerns about the year-end "fiscal cliff."

While it varies from month-to-month, traditional retail investor interest, on the whole, has fallen along with the

**FIGURE 5**

MUNICIPAL BOND MARKET, MONTHLY FUND INFLOWS/OUTFLOWS




Source: Investment Company Institute (ICI) general decline in interest rates. As shown in Figure 6, demand among small investors in 2012 has been lower than in 2011, which in turn was down approximately 24 percent from 2008.

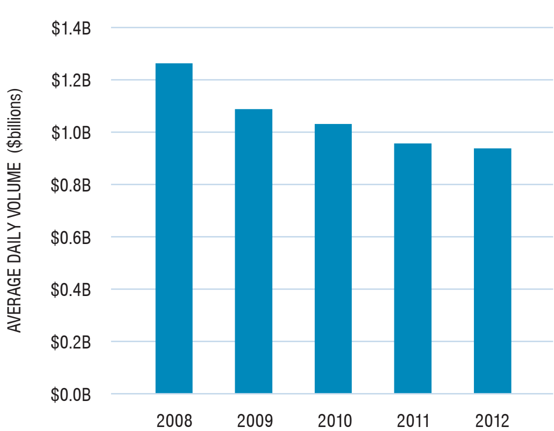
A growing segment of the retail investor market has been dominated by separately managed accounts (SMAs). These professionally administered SMAs are taking the place of traditional "mom and pop" investors. In SMAs, individual high net worth investors establish accounts managed by professional investment advisors who buy the bonds and directly deposit the purchased bonds into individual accounts.

Despite the drop in retail purchases, the strong mutual fund growth and favorable net supply environment have kept investor demand strong enough to absorb 2012's strong average weekly supply of $6.6 billion.

VARIABLE RATE BONDS. The financial crisis severely impaired the markets for the two predominant municipal bond variable rate structures – variable rate demand bonds (VRDBs) and auction rate securities (ARS). First, ARS auctions began to fail. That market ultimately collapsed and has not returned. Then, as the commercial banks' credit quality deteriorated dramatically, issuers with VRDBs, which generally require commercial bank support, faced a severely limited supply of credit facilities, much higher pricing and more onerous terms and conditions. As a result, since 2008, issuers have been, at most, trying to maintain their variable rate exposure, with virtually no new VRDBs being issued. During this period, alternative variable rate products that do not require any external credit support have been developed for municipal issuers, including indexed floaters and extendible commercial paper. These products generally incorporate sufficient time prior to their maturity for the issuer to re-access capital markets to refund or renew these short-term obligations. They enable issuers, based on their own credit, to access the low-cost variable rate market at attractive terms relative to the fixed-rate and credit-supported VRDB markets. In 2012, for the first time, the State issued $198 million of indexed floaters to refinance existing GO VRDBs. This reduced the State's exposure to, and dependence on, credit support facilities.

**FIGURE 6**

CUSTOMER BUY TRADES OF $500,000 OR LESS 2008 – 2012 Q2




Source: Municipal Securities Rulemaking Board (MSRB)
Data through 2nd Quarter 2012

MUNICIPAL BANKRUPTCIES. While the market for municipal bonds generally has been strong this year, a significant negative credit development has been the decision by a number of local governments to address their fiscal challenges by declaring a fiscal emergency or filing for Chapter 9 bankruptcy relief. In California, these entities have included the cities of Stockton, San Bernardino and Mammoth Lakes. In addition, a number of other California local governments have stated publicly they are considering similar actions. These developments followed the City of Vallejo's emergence earlier this year from its three-year bankruptcy process.

According to some reports, 53 California municipalities, 52 of which are cities (11 percent of all California cities) have declared a fiscal emergency in the last five years. Nationally, a number of local governments including Harrisburg, Pennsylvania and Central Falls, Rhode Island, took similar steps. In general, these distressed municipalities' leaders say revenue declines, inability to raise revenues and expenditure pressures, including large pension obligations, have narrowed their feasible financial options.

In California, local governments have defaulted on lease revenue bonds, certificates of participation and pension obligation bonds. While these actions remain limited, many local governments continue to face stiff fiscal challenges in the aftermath of the severe recession. As a result, investors and credit enhancement providers have additional questions and concerns about certain types of bonds and credits. Moody's Investors Service (Moody's) has indicated it will review the ratings of all California cities and expects to create a sharper distinction between GO bond ratings and ratings on unsecured general fund obligations such as pension obligation bonds, lease revenue bonds and certificates of participation. However, while there is a heightened perception of credit risk for California cities, Moody's said it expects the number of Chapter 9 filings and defaults to remain low.

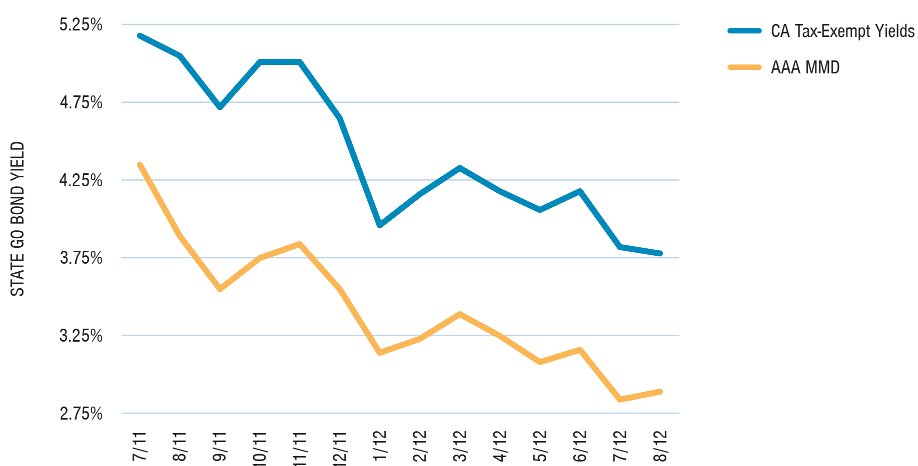
## THE STATE'S BONDS

From July 1, 2011 through August 29, 2012, yields on the State's tax-exempt bonds have declined substantially (see Figure 7). As discussed above, the changes over this period resulted from a variety of factors, including global economic conditions, an investor flight to quality, strong municipal bond mutual fund inflows, positive net supply conditions and relatively positive perceptions of the State's credit profile.

Figure 8 depicts the State's bond yields by showing the amount of GO bonds sold and how the yields compared to the MMD index. In general, the State's spreads to MMD are impacted by general market conditions, the State's credit and the timing and amount of bonds the State sells. Prior to the budget being passed in June 2011, the State had not sold any tax-exempt bonds since November 2010. This created a scarcity of supply. The State's yields declined, and the MMD spreads tightened dramatically. However, with the on-time budget approval in June 2011, and the expectation of significant upcoming State supply, spreads to MMD widened. Similarly, spreads tightened again after the State's two fall 2011 sales in September and October, widened around the March 2012 and April 2012 sales, and then narrowed.

## FIGURE 7

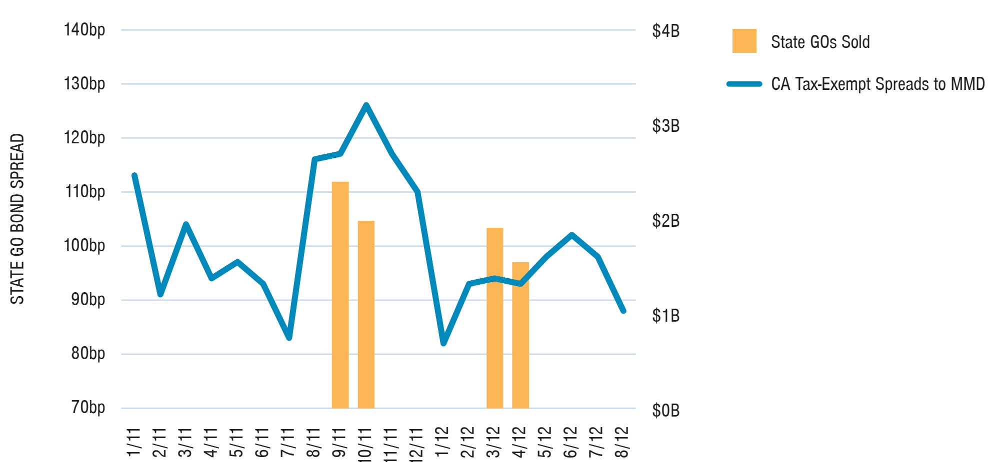
TRENDS OF CALIFORNIA GO BOND YIELDS, 30-YEAR GO BONDS




Source: Thomson Municipal Market Monitor (TM3)

## FIGURE 8

TRENDS OF CALIFORNIA GO BOND SPREADS, 30-YEAR GO BONDS




Source: Thomson Municipal Market Monitor (TM3)

## SECTION 2:

# *Snapshot of State's Debt*

### OVERVIEW

Figure 9 summarizes the State's debt as of June 30, 2012. This debt includes GO bonds approved by voters, lease revenue bonds (LRBs) authorized by the Legislature, Proposition 1A receivables bonds (Prop 1A) authorized by the 2009-10 Budget Act[1] and other special fund or self-liquidating bonds. The numbers include bonds the State

### FIGURE 9

SUMMARY OF STATE'S DEBT (a)
AS OF JUNE 30, 2012 (dollars in billions)

| GENERAL FUND SUPPORTED ISSUES | OUTSTANDING | AUTHORIZED BUT UNISSUED | TOTAL |
|---|---|---|---|
| General Obligation Bonds | $73.06 | $33.07 | $106.13 |
| Lease Revenue Bonds (b) | 11.33 | 7.19 | 18.52 |
| Proposition 1A Receivables Bonds | 1.90 | - | 1.90 |
| TOTAL GENERAL FUND SUPPORTED ISSUES | $86.29 | $40.26 | $126.55 |
| SPECIAL FUND/SELF LIQUIDATING ISSUES | | | |
| Economic Recovery Bonds | $6.39 | $ - | $6.39 |
| Veterans General Obligation Bonds | 0.76 | 1.14 | 1.90 |
| California Water Resources Development General Obligation Bonds | 0.36 | 0.17 | 0.53 |
| TOTAL SPECIAL FUND/SELF LIQUIDATING ISSUES | $7.51 | $1.31 | $8.82 |
| TOTAL | $93.8 | $41.57 | $135.37 |

(a) Debt obligations not included in Figure 9: Any short-term obligations such as commercial paper or revenue anticipation notes; revenue bonds issued by State agencies which are repaid from specific revenues outside the General Fund; and "conduit" bonds, such as those issued by State financing authorities on behalf of other governmental or private entities whose obligations secure the bonds.

(b) SB 1022 (2012) significantly reduced the bond authority associated with the Public Safety and Offender Rehabilitation Act of 2007. In addition, SB 1407 authorized an additional amount for construction of certain court projects. The figure above excludes the amount for those projects that have not been appropriated through enacted budgets.

[1] The Proposition 1A receivables bonds were issued pursuant to Title 1, Chapter 5, Division 7, Article 4 (commencing with Section 6584) of the Government Code of the State of California.

has sold (outstanding) and bonds authorized but not yet sold. A detailed list of the State's outstanding bonds, and their debt service requirements, can be found in Appendices A and B (except for special fund LRBs issued through a joint powers authority).

- Approximately 5.2 percent of all GO bonds carry variable interest rates. The law authorizes up to 20 percent of GO bonds (including Economic Recovery Bonds) to be variable rate. The remaining 94.8 percent of the State's GO bonds have fixed interest rates.
- The State has no interest rate hedging contracts on any debt discussed in this report.

## INTENDED ISSUANCE OF GENERAL FUND-BACKED BONDS

When available, the State Treasurer's Office (STO) uses the Department of Finance's (DOF) projections for future debt issuance by the State. As of the date of this report, DOF has provided estimates for LRBs and for fall 2012 issuance of GO bonds. However, DOF is in the process of analyzing GO bond funding needs for spring 2013 as well as 2013-14. Therefore, this report's GO bond issuance estimates for these periods have not been approved by DOF. They are subject to change.

Projections for new-money debt issuance are based on a variety of factors and are periodically updated. Factors that could affect the amount of issuance include actual spending patterns by departments, revised funding needs, overall budget constraints, use or take-out of commercial paper and general market conditions. Actual issuance amounts often vary significantly from initial estimates.

Figure 10 shows the STO's estimated issuance of new-money General Fund-backed bonds over the next two fiscal years. Only currently authorized but unissued GO bonds are reflected in Figure 10. The estimated issuance may increase should new bond programs be approved.

As shown in Figure 10, STO preliminarily estimates the State will issue a combined $12.79 billion of new money General Fund-backed bonds in 2012-13 and 2013-14. Using these assumptions for debt issuance, STO estimates debt service payments from the General Fund will increase by $35.03 million in 2012-13 and $392.50 million in 2013-14.

### FIGURE 10

INTENDED ISSUANCE GENERAL FUND-SUPPORTED BONDS (a)
(dollars in millions)

| | 2012-13 | 2013-14 |
|---|---|---|
| General Obligation Bonds | $4,193 | $5,269 |
| Lease Revenue Bonds | $1,061 | $2,268 |
| TOTAL GENERAL FUND-SUPPORTED BONDS | $5,254 | $7,537 |

(a) Debt issuances not included in Figure 10: Any short-term obligations such as commercial paper or revenue anticipation notes; refunding bonds; revenue bonds issued by State agencies which are repaid from specific revenues outside the General Fund; and "conduit" bonds, such as those issued by State financing authorities on behalf of other governmental or private entities whose obligations secure the bonds.

## SECTION 3:

# *Measuring Debt Burden*

### DEBT RATIOS

Measuring California's debt level with various ratios – while not particularly helpful in assessing debt affordability – does provide a way to compare the State's burden to that of other borrowers. The three most commonly-used ratios are: debt service as a percentage of General Fund revenues; debt as a percentage of personal income; and debt per capita. A fourth ratio, debt as a percentage of gross domestic product (GDP), also can be a useful comparison tool.

### DEBT SERVICE AS PERCENTAGE OF GENERAL FUND REVENUES

Because debt service is considered a fixed part of a budget, credit analysts compare General Fund-supported debt service to General Fund revenues to measure a state's fiscal flexibility. California's ratio of debt service to General Fund revenues was 7.9 percent[2] in 2011-12. That figure is based on $6.9 billion of GO, LRB and Proposition 1A debt service payments versus $86.8 billion of General Fund revenues. The STO estimates this ratio will be 8.9 percent[3] in 2012-13. That estimate is based on $8.6 billion of debt service payments versus $95.9 billion of General Fund revenues (as projected by DOF).[4] The 2013-13 debt service ratio would be higher if voters reject Proposition 30.

### DEBT AS PERCENTAGE OF PERSONAL INCOME

Comparing a state's level of debt to the total personal income of its residents is a way to measures a state's ability to generate revenues and repay its obligations. In its 2012 State Debt Medians report, Moody's lists the State's ratio of net tax-supported debt to personal income at 6.0 percent.[5]

### DEBT PER CAPITA

Debt per capita measures residents' average share of a state's total outstanding debt. It does not account for the employment status, income or other financial resources of residents. As a result, debt per capita does not reflect a state's ability to repay its obligations as well as other ratios, such as debt service as a percentage of General Fund revenues or

2 Does not reflect offsets due to subsidy payments from the federal government for BABs or transfers from special funds. When debt service is adjusted to account for approximately $1.1 billion of estimated offsets, the 2011-12 debt service decreases to $5.73 billion and the ratio of debt service to General Fund revenues drops to 6.60 percent.

3 Does not reflect offsets due to subsidy payments from the federal government for BABs or transfers from special funds. When debt service is adjusted to account for approximately $1.1 billion of estimated offsets, the 2012-13 debt service decreases to $7.42 billion and the ratio of debt service to General Fund revenues drops to 7.74 percent.

4 Excludes special fund bonds, for which annual debt service is paid from dedicated funds. Ratio reflects debt service from only a portion of the bond sales listed in Figure 10. For example, $1 billion of the $4.2 billion in GO bonds and $0.66 billion of the $1.1 billion in LRBs planned for 2012-13 will be sold during the first half of the fiscal year. These bonds will have interest payments in the second half of the fiscal year. The remaining GO bonds and LRBs to be sold in 2012-13 will not have a debt service payment during the fiscal year and, therefore, will not affect the 2012-13 debt service ratio. When the debt service on the Economic Recovery Bonds (ERBs) is added to General Fund-supported debt service (excluding offsets due to subsidy payments from the federal government for BABs or transfers from special funds), and the revenue from the quarter-cent sales tax dedicated for payment of the ERBs is added to General Fund revenues, the ratio of debt service to General Fund revenues increases to 9.0 percent in 2011-12 and 9.6 percent in 2012-13.

5 The Moody's calculation of net tax-supported debt includes GO bonds (non self-liquidating), LRBs (excluding UC), ERBs, Prop 1A, GO commercial paper notes, federal Highway Grant Anticipation Bonds, tobacco securitization bonds with a General Fund backstop, California Judgment Trust Obligations, Bay Area Infrastructure Financing Authority's State payment acceleration notes and State Building Lease Purchase bonds.

debt as a percentage of personal income. In its 2012 State Debt Medians report, Moody's lists the State's debt per capita at $2,559.[6]

## DEBT AS PERCENTAGE OF STATE GDP

Debt as a percentage of GDP generally is used to measure the financial leverage provided by an issuer's economy. Specifically, this debt ratio compares what an issuer owes versus what it produces. California has one of the world's largest – ninth ranked in 2011 – and most diverse economies.[7] In its 2012 State Debt Medians report, Moody's lists the State's debt-to-GDP ratio at 5.07 percent.[6]

## CALIFORNIA'S DEBT LEVELS COMPARED TO OTHER LARGE STATES

Moody's calculates the ratios of debt to personal income, debt per capita and debt as a percentage of GDP for each state and publishes an annual report containing the median ratios (State Debt Medians report). It is useful to compare California's debt levels with those of its "peer group" of the 10 most populous states. As shown in Figure 11, the median debt to personal income, debt per capita and debt as a percentage of GDP of these 10 states are, on average, in line with Moody's median for all states combined. California's ratios, however, rank well above the medians for the 10 most populous states.

## FIGURE 11

DEBT RATIOS OF 10 MOST POPULOUS STATES, RANKED BY RATIO OF DEBT TO PERSONAL INCOME

| STATE | MOODY'S/S&P/ FITCH(a) | DEBT TO PERSONAL INCOME(b) | DEBT PER CAPITA(b) | DEBT AS A % OF STATE GDP(b)(c) |
|---|---|---|---|---|
| Texas | Aaa/AA+/AAA | 1.5% | $588 | 1.25% |
| Michigan | Aa2/AA-/AA- | 2.2% | $785 | 2.02% |
| North Carolina | Aaa/AAA/AAA | 2.3% | $815 | 1.85% |
| Pennsylvania | Aa2/AA/AA+ | 2.8% | $1,134 | 2.54% |
| Ohio | Aa1/AA+/AA+ | 2.8% | $1,012 | 2.45% |
| Florida | Aa1/AAA/AAA | 3.0% | $1,167 | 2.97% |
| Georgia | Aaa/AAA/AAA | 3.1% | $1,099 | 2.68% |
| Illinois | A2/A/A | 6.0% | $2,564 | 5.06% |
| California | A1/A-/A- | 6.0% | $2,559 | 5.07% |
| New York | Aa2/AA/AA | 6.6% | $3,208 | 5.38% |
| MOODY'S MEDIAN ALL STATES | | 2.8% | $1,117 | 2.40% |
| MEDIAN FOR THE 10 MOST POPULOUS STATES | | 2.9% | $1,117 | 2.61% |

(a) Moody's, Standard & Poor's, and Fitch Ratings as of September 2012.

(b) Figures as reported by Moody's in its 2012 State Debt Medians Report released May 2012. As of calendar year end 2011.

(c) State GDP numbers have a one-year lag.

6 The Moody's calculation of net tax-supported debt includes GO bonds (non self-liquidating), LRBs (excluding UC), ERBs, Prop 1A, GO commercial paper notes, federal Highway Grant Anticipation Bonds, tobacco securitization bonds with a General Fund backstop, California Judgment Trust Obligations, Bay Area Infrastructure Financing Authority's State payment acceleration notes and State Building Lease Purchase bonds.

7 California GDP for 2011 as reported by the U.S. Bureau of Economic Analysis. Sovereign Country Ranking and GDP for 2011 as reported by the World Bank.

# SECTION 4:

# *Analysis of State's Credit Ratings*

The State's current GO bond ratings are A- from Fitch Ratings (Fitch), A1 from Moody's and A- from Standard & Poor's (S&P). These reflect the lowest state rating from Fitch and S&P, and the second-lowest state rating from Moody's. Figure 12 presents a summary of the latest rating agencies' actions on the State's GO bonds.

In 2012, Fitch and Moody's maintained a stable outlook on the State's credit rating. On February 14, 2012, S&P upgraded the State's outlook to positive from stable. In revising the outlook, S&P credited the State's implementation of structurally-oriented budget solutions, its determination to resolve the structural budget imbalance with a multi-year plan, its commitment to follow-through on mid-year triggered spending cuts, and an improved framework for adopting budgets. S&P also pointed to the State's improved economic outlook, including slow but steady job growth, as a credit positive.

In its report, S&P said "by downsizing its spending base, the state has corrected a significant portion of its budget imbalance." S&P said a rating upgrade for California will depend on the State's ability to realign its cash performance with budget estimates. On the other hand, S&P said the outlook could return to stable if "intransigent budget negotiations emerge despite the state's majority vote procedures." Furthermore, because of its heavy reliance on the personal income tax, an unexpected weakness in that revenue source could exert downward pressure on the State's credit rating, said S&P.

**FIGURE 12**

LATEST RATING ACTIONS

| RATING AGENCY | ACTION | DATE |
|---|---|---|
| S&P | Affirmed A- and revised outlook to positive from stable | February 2012 |
| | Affirmed A- and positive outlook | September 2012 |
| Fitch | Affirmed A- and stable outlook | September 2012 |
| Moody's | Affirmed A1 and stable outlook | September 2012 |

Figure 13 presents a summary of the rating agencies' opinion of the State's credit strengths and challenges.

### FIGURE 13

STATE OF CALIFORNIA GENERAL OBLIGATION RATING AGENCY COMMENTARY

| | FITCH | MOODY'S | S&P |
|---|---|---|---|
| RATING STRENGTHS | • Wealthy, diverse economy, with growth resuming after recessionary conditions<br>• Moderate, but above average, debt burden<br>• Deep spending cuts in past two budgets have significantly lowered the state's structural imbalance | • Large, diverse and wealthy economy<br>• Long-term liabilities are average compared to many other states<br>• Relatively well-funded pension obligation | • Economic depth and diversity<br>• Reduced risk of liquidity crises with a majority vote budget<br>• Cash management practices provide the state flexibility during budget and cash emergencies |
| RATING CHALLENGES | • State finances are subject to cash flow crises due to structural imbalances, cyclical revenues and institutional inflexibility<br>• Constraints imposed by voter initiatives and a partisan policymaking environment have hindered timely and effective action on fiscal challenges<br>• Revenues are volatile, notably the personal income tax component | • Highly volatile revenue structure<br>• Political environment in which making speedy and productive gap-solving decisions is difficult<br>• Reliance in the past on one-time solutions (including deficit borrowing) for longer-term problems<br>• Limited financial and budgetary flexibility | • Revenues are prone to volatility and tend to be correlated with financial markets more than underlying economic trends<br>• Lack of a meaningful reserve policy and a history of limited (twice per year) revenue forecasting<br>• Governance rules that can contribute to delayed and sub-optimal fiscal decision making<br>• Large future debt, retirement benefit and budgetary liabilities, which will siphon future State resources |

## APPENDIX A:

# The State's Debt

### AUTHORIZED AND OUTSTANDING
### NON-SELF LIQUIDATING GENERAL OBLIGATION BONDS
### AS OF JUNE 30, 2012 (dollars in thousands)

| GENERAL FUND BONDS | VOTER AUTHORIZATION DATE | VOTER AUTHORIZATION AMOUNT $ | LONG TERM BONDS OUTSTANDING (a) $ | LONG TERM BONDS UNISSUED (b) $ |
|---|---|---|---|---|
| + 1988 School Facilities Bond Act | 11/08/88 | 797,745 | 53,620 | - |
| + 1990 School Facilities Bond Act | 06/05/90 | 797,875 | 124,755 | - |
| + 1992 School Facilities Bond Act | 11/03/92 | 898,211 | 341,360 | - |
| California Clean Water, Clean Air, Safe Neighborhood Parks, and Coastal Protection Act of 2002 | 03/05/02 | 2,600,000 | 2,251,440 | 259,240 |
| + California Library Construction and Renovation Bond Act of 1988 | 11/08/88 | 72,405 | 17,880 | - |
| + California Park and Recreational Facilities Act of 1984 | 06/05/84 | 368,900 | 16,370 | - |
| California Parklands Act of 1980 | 11/04/80 | 285,000 | 3,580 | - |
| California Reading and Literacy Improvement and Public Library Construction and Renovation Bond Act of 2000 | 03/07/00 | 350,000 | 286,065 | 5,040 |
| + California Safe Drinking Water Bond Law of 1976 | 06/08/76 | 172,500 | 3,640 | - |
| California Safe Drinking Water Bond Law of 1984 | 11/06/84 | 75,000 | 2,380 | - |
| California Safe Drinking Water Bond Law of 1986 | 11/04/86 | 100,000 | 28,495 | - |
| California Safe Drinking Water Bond Law of 1988 | 11/08/88 | 75,000 | 34,500 | - |
| + California Wildlife, Coastal, and Park Land Conservation Act | 06/07/88 | 768,670 | 148,995 | - |
| Children's Hospital Bond Act of 2004 | 11/02/04 | 750,000 | 670,680 | 47,445 |
| Children's Hospital Bond Act of 2008 | 11/04/08 | 980,000 | 528,865 | 449,240 |
| Class Size Reduction Kindergarten-University Public Education Facilities Bond Act of 1998 (Higher Education) | 11/03/98 | 2,500,000 | 1,963,010 | - |
| Class Size Reduction Kindergarten-University Public Education Facilities Bond Act of 1998 (K-12) | 11/03/98 | 6,700,000 | 4,652,980 | 11,860 |
| Clean Air and Transportation Improvement Bond Act of 1990 | 06/05/90 | 1,990,000 | 940,980 | 38,945 |
| Clean Water Bond Law of 1984 | 11/06/84 | 325,000 | 13,675 | - |
| Clean Water and Water Conservation Bond Law of 1978 | 06/06/78 | 375,000 | 5,650 | - |
| Clean Water and Water Reclamation Bond Law of 1988 | 11/08/88 | 65,000 | 28,345 | - |

## AUTHORIZED AND OUTSTANDING NON-SELF LIQUIDATING GENERAL OBLIGATION BONDS AS OF JUNE 30, 2012 (dollars in thousands) CONTINUED

| GENERAL FUND BONDS | VOTER AUTHORIZATION DATE | VOTER AUTHORIZATION AMOUNT $ | LONG TERM BONDS OUTSTANDING (a) $ | LONG TERM BONDS UNISSUED (b) $ |
|---|---|---|---|---|
| Community Parklands Act of 1986 | 06/03/86 | 100,000 | 3,940 | - |
| County Correctional Facility Capital Expenditure Bond Act of 1986 | 06/03/86 | 495,000 | 28,590 | - |
| County Correctional Facility Capital Expenditure and Youth Facility Bond Act of 1988 | 11/08/88 | 500,000 | 103,745 | - |
| Disaster Preparedness and Flood Prevention Bond Act of 2006 | 11/07/06 | 4,090,000 | 2,252,925 | 1,818,652 |
| Earthquake Safety and Public Buildings Rehabilitation Bond Act of 1990 | 06/05/90 | 300,000 | 138,485 | 9,765 |
| Fish and Wildlife Habitat Enhancement Act of 1984 | 06/05/84 | 85,000 | 6,035 | - |
| Higher Education Facilities Bond Act of 1988 | 11/08/88 | 600,000 | 30,205 | - |
| Higher Education Facilities Bond Act of June 1990 | 06/05/90 | 450,000 | 65,865 | 540 |
| Higher Education Facilities Bond Act of June 1992 | 06/02/92 | 900,000 | 405,225 | 1,305 |
| Highway Safety, Traffic Reduction, Air Quality, and Port Security Bond Act of 2006 | 11/07/06 | 19,925,000 | 8,932,560 | 10,850,440 |
| Housing and Emergency Shelter Trust Fund Act of 2002 | 11/05/02 | 2,100,000 | 1,602,250 | 132,535 |
| Housing and Emergency Shelter Trust Fund Act of 2006 | 11/07/06 | 2,850,000 | 1,543,280 | 1,258,990 |
| Housing and Homeless Bond Act of 1990 | 06/05/90 | 150,000 | 2,395 | - |
| Kindergarten-University Public Education Facilities Bond Act of 2002 (Hi-Ed) | 11/05/02 | 1,650,000 | 1,512,565 | - |
| Kindergarten-University Public Education Facilities Bond Act of 2002 (K-12) | 11/05/02 | 11,400,000 | 10,014,765 | 71,900 |
| Kindergarten-University Public Education Facilities Bond Act of 2004 (Hi-Ed) | 03/02/04 | 2,300,000 | 2,113,060 | 68,864 |
| Kindergarten-University Public Education Facilities Bond Act of 2004 (K-12) | 03/02/04 | 10,000,000 | 8,981,770 | 524,870 |
| Kindergarten-University Public Education Facilities Bond Act of 2006 (Hi-Ed) | 11/07/06 | 3,087,000 | 2,603,355 | 471,655 |
| Kindergarten-University Public Education Facilities Bond Act of 2006 (K-12) | 11/07/06 | 7,329,000 | 5,553,905 | 1,763,655 |
| Lake Tahoe Acquisitions Bond Act | 08/02/82 | 85,000 | 600 | - |
| New Prison Construction Bond Act of 1986 | 11/04/86 | 500,000 | 11,810 | - |
| New Prison Construction Bond Act of 1988 | 11/08/88 | 817,000 | 30,985 | 2,165 |
| New Prison Construction Bond Act of 1990 | 06/05/90 | 450,000 | 40,805 | 605 |
| Passenger Rail and Clean Air Bond Act of 1990 | 06/05/90 | 1,000,000 | 123,435 | - |
| Public Education Facilities Bond Act of 1996 (Higher Education) | 03/26/96 | 975,000 | 603,820 | 14,720 |
| + Public Education Facilities Bond Act of 1996 (K-12) | 03/26/96 | 2,012,035 | 1,102,955 | - |
| Safe Drinking Water, Clean Water, Watershed Protection, and Flood Protection Act | 03/07/00 | 1,970,000 | 1,554,450 | 135,844 |
| Safe Drinking Water, Water Quality and Supply, Flood Control, River and Coastal Protection | 11/07/06 | 5,388,000 | 2,417,410 | 2,957,710 |
| Bond Act of 2006 | | | | |
| Safe Neighborhood Parks, Clean Water, Clean Air, and Coastal Protection Bond Act of 2000 | 03/07/00 | 2,100,000 | 1,674,020 | 85,815 |
| Safe, Clean, Reliable Water Supply Act | 11/05/96 | 995,000 | 686,410 | 89,070 |

## AUTHORIZED AND OUTSTANDING NON-SELF LIQUIDATING GENERAL OBLIGATION BONDS AS OF JUNE 30, 2012 (dollars in thousands) CONTINUED

| GENERAL FUND BONDS | VOTER AUTHORIZATION DATE | VOTER AUTHORIZATION AMOUNT $ | LONG TERM BONDS OUTSTANDING (a) $ | LONG TERM BONDS UNISSUED (b) $ |
|---|---|---|---|---|
| Safe, Reliable High-Speed Passenger Train Bond Act for the 21st Century | 11/04/08 | 9,950,000 | 499,285 | 9,448,725 |
| School Building and Earthquake Bond Act of 1974 | 11/05/74 | 40,000 | 18,640 | - |
| School Facilities Bond Act of 1990 | 11/06/90 | 800,000 | 200,325 | - |
| School Facilities Bond Act of 1992 | 06/02/92 | 1,900,000 | 725,000 | 10,280 |
| Seismic Retrofit Bond Act of 1996 | 03/26/96 | 2,000,000 | 1,361,885 | - |
| State, Urban, and Coastal Park Bond Act of 1976 | 11/02/76 | 280,000 | 5,055 | - |
| Stem Cell Research and Cures Bond Act of 2004 | 11/02/04 | 3,000,000 | 1,120,305 | 1,873,475 |
| Veterans Homes Bond Act of 2000 | 03/07/00 | 50,000 | 39,190 | 975 |
| Voting Modernization Bond Act of 2002 | 03/05/02 | 200,000 | 62,325 | 64,495 |
| Water Conservation Bond Law of 1988 | 11/08/88 | 60,000 | 28,200 | 5,235 |
| Water Conservation and Water Quality Bond Law of 1986 | 06/03/86 | 150,000 | 41,270 | 13,730 |
| Water Security, Clean Drinking Water, Coastal and Beach Protection Act of 2002 | 11/05/02 | 3,440,000 | 2,700,500 | 586,909 |
| TOTAL GENERAL FUND BONDS | | 127,519,341 | 73,060,865 | 33,074,694 |

(a) Includes the initial value of capital appreciation bonds rather than the accreted value.

(b) A portion of unissued bonds may be issued initially in the form of commercial paper notes, as authorized from time to time by the respective bond Finance Committees. A total of not more than $1.649 billion of commercial paper principal plus accrued interest may be owing at one time.

\+ SB 1018 (06/27/2012) reduced the voter authorized amount

## AUTHORIZED AND OUTSTANDING SELF LIQUIDATING GENERAL OBLIGATION BONDS AS OF JUNE 30, 2012 (dollars in thousands)

| ENTERPRISE FUND BONDS | VOTER AUTHORIZATION DATE | VOTER AUTHORIZATION AMOUNT $ | LONG TERM BONDS OUTSTANDING (a) $ | LONG TERM BONDS UNISSUED (b) $ |
|---|---|---|---|---|
| California Water Resources Development Bond Act | 11/08/60 | 1,750,000 | 362,375 | 167,600 |
| Veterans Bond Act of 1986 | 06/03/86 | 850,000 | 106,230 | - |
| Veterans Bond Act of 1988 | 06/07/88 | 510,000 | 92,905 | - |
| Veterans Bond Act of 1990 | 11/06/90 | 400,000 | 67,625 | - |
| Veterans Bond Act of 1996 | 11/05/96 | 400,000 | 240,375 | - |
| Veterans Bond Act of 2000 | 11/07/00 | 500,000 | 250,425 | 238,610 |
| Veterans Bond Act of 2008 | 11/04/08 | 900,000 | - | 900,000 |
| TOTAL ENTERPRISE FUND BONDS | | 5,310,000 | 1,119,935 | 1,306,210 |
| SPECIAL REVENUE FUND BONDS | | | | |
| Economic Recovery Bond Act | 04/10/04 | 15,000,000 | 6,386,950 | - |
| TOTAL SPECIAL REVENUE FUND BONDS | | 15,000,000 | 6,386,950 | - |
| TOTAL SELF LIQUIDATING GENERAL OBLIGATION BONDS | | 20,310,000 | 7,506,885 | 1,306,210 |

(a) Includes the initial value of capital appreciation bonds rather than the accreted value.

(b) A portion of unissued bonds may be issued initially in the form of commercial paper notes, as authorized from time to time by the respective bond Finance Committees. A total of not more than $1.649 billion of commercial paper principal plus accrued interest may be owing at one time.

## AUTHORIZED AND OUTSTANDING LEASE REVENUE BONDS AS OF JUNE 30, 2012 (dollars in thousands)

| GENERAL FUND SUPPORTED ISSUES: | OUTSTANDING | AUTHORIZED BUT UNISSUED |
|---|---|---|
| STATE PUBLIC WORKS BOARD | | |
| California Community Colleges | $401,100 | $ - |
| California Department of Corrections and Rehabilitations (a) | 3,138,770 | 3,731,867 |
| The Regents of the University of California (b) | 2,457,810 | 118,217 |
| Trustees of the California State University | 866,425 | 289,577 |
| Various State Facilities (c) | 4,017,875 | 3,046,449 |
| TOTAL STATE PUBLIC WORKS BOARD ISSUES | $10,881,980 | $7,186,110 |
| TOTAL OTHER STATE FACILITIES LEASE-REVENUE ISSUES (d) | $448,375 | $ - |
| TOTAL GENERAL FUND SUPPORTED ISSUES | $11,330,355 | $7,186,110 |

(a) Includes the amount appropriated under the Public Safety and Offender Rehabilitation Services Act ("AB 900"), which was reduced as a result of the enactment of SB 1022 (Ch. 42/12).

(b) The Regents' obligations to the State Public Works Board are payable from lawfully available funds of the Regents which are held in the Regents' treasury funds and are separate from the State General Fund. A portion of the Regents' annual budget is derived from General Fund appropriations.

(c) This includes projects supported by multiple funding sources in addition to the General Fund. In addition, SB 1407 authorized an additional amount for construction of certain court projects. The figure above excludes the amount for those projects that have not been appropriated through enacted budgets. Includes FISCal.

(d) Includes $119,080,000 Sacramento City Financing Authority Lease-Revenue Bonds State of California - Cal/EPA Building, 1998 Series A, which are supported by lease rentals from the California Environmental Protection Agency. These rental payments are subject to annual appropriation by the Legislature.

# APPENDIX B:

# The State's Debt Service

## SCHEDULE OF DEBT SERVICE REQUIREMENTS
## FOR STATE OF CALIFORNIA
## PROPOSITION 1A RECEIVABLES PROGRAM(a)
## REVENUE BONDS, FIXED RATE, AS OF JUNE 30, 2012

| FISCAL YEAR ENDING JUNE 30 | CURRENT DEBT INTEREST | CURRENT DEBT PRINCIPAL | CURRENT DEBT TOTAL |
|---|---|---|---|
| 2013 | $90,800,000.00 | $1,895,000,000.00 | $1,985,800,000.00 |
| TOTAL | $90,800,000.00 | $1,895,000,000.00 | $1,985,800,000.00 |

(a) Bonds were issued by the California Statewide Communities Development Authority pursuant to Titile 1, Chapter 5, Division 7, Article 4 (commencing with Section 6584) of the Government Code of the State of California.

## SCHEDULE OF DEBT SERVICE REQUIREMENTS FOR SPECIAL REVENUE FUND SELF LIQUIDATING BONDS (ECONOMIC RECOVERY BONDS) FIXED RATE, AS OF JUNE 30, 2012

| FISCAL YEAR ENDING JUNE 30 | CURRENT DEBT | | |
|---|---|---|---|
| | INTEREST | PRINCIPAL (a) | TOTAL |
| 2013 | $253,149,635.00 | $476,470,000.00 | $729,619,635.00 |
| 2014 | 228,578,530.00 | 500,470,000.00 | 729,048,530.00 |
| 2015 | 202,392,798.75 | 525,615,000.00 | 728,007,798.75 |
| 2016 | 175,020,005.00 | 556,690,000.00 | 731,710,005.00 |
| 2017 | 150,294,300.00 | 528,985,000.00 | 679,279,300.00 |
| 2018 | 133,645,576.25 | 249,100,000.00 | 382,745,576.25 |
| 2019 | 113,267,497.50 | 592,955,000.00 | 706,222,497.50 |
| 2020 | 86,361,762.50 | 496,145,000.00 | 582,506,762.50 |
| 2021 | 61,465,062.50 | 507,445,000.00 | 568,910,062.50 |
| 2022 | 36,925,093.75 | 451,575,000.00 | 488,500,093.75 |
| 2023 | 12,571,250.00 | 500,000,000.00 | 512,571,250.00 |
| 2024 | 35,625.00 | 1,500,000.00 | 1,535,625.00 |
| TOTAL | $1,453,707,136.25 | $5,386,950,000.00 | $6,840,657,136.25 |

(a) Includes scheduled mandatory sinking fund payments.

## SCHEDULE OF DEBT SERVICE REQUIREMENTS FOR SPECIAL REVENUE FUND SELF LIQUIDATING BONDS (ECONOMIC RECOVERY BONDS) VARIABLE RATE, AS OF JUNE 30, 2012

| FISCAL YEAR ENDING JUNE 30 | CURRENT DEBT | | |
|---|---|---|---|
| | INTEREST (a) | PRINCIPAL (b) | TOTAL |
| 2013 | $ 24,752,339.78 | $ - | $ 24,752,339.78 |
| 2014 | 24,746,384.25 | - | 24,746,384.25 |
| 2015 | 22,821,959.25 | - | 22,821,959.25 |
| 2016 | 20,901,441.72 | - | 20,901,441.72 |
| 2017 | 20,898,558.28 | - | 20,898,558.28 |
| 2018 | 20,900,000.00 | 25,000,000.00 | 45,900,000.00 |
| 2019 | 19,404,931.51 | 115,000,000.00 | 134,404,931.51 |
| 2020 | 13,506,510.22 | 189,500,000.00 | 203,006,510.22 |
| 2021 | 5,628,230.49 | 240,155,000.00 | 245,783,230.49 |
| 2022 | 1,367,860.84 | 219,190,000.00 | 220,557,860.84 |
| 2023 | 294,907.88 | 134,620,000.00 | 134,914,907.88 |
| 2024 | 26,633.88 | 76,535,000.00 | 76,561,633.88 |
| TOTAL | $ 175,249,758.10 | $ 1,000,000,000.00 | $ 1,175,249,758.10 |

(a) The estimate of future interest payments is based on rates in effect as of June 30, 2012. The interest rates for the bonds range from 0.14% - 0.20%. $500,000,000 of the series 2009B ERBs bear interest at fixed rates ranging from 3.50% - 5.00% until reset date, and are assumed to bear interest at the rate of 4.00% from each reset date to maturity.

(b) Includes scheduled mandatory sinking fund payments.

## SCHEDULE OF DEBT SERVICE REQUIREMENTS FOR GENERAL FUND NON-SELF LIQUIDATING BONDS FIXED RATE, AS OF JUNE 30, 2012

| FISCAL YEAR ENDING JUNE 30 | CURRENT DEBT | | |
|---|---|---|---|
| | INTEREST (a) | PRINCIPAL (b) | TOTAL |
| 2013 | $3,815,124,209.34 | $1,596,085,000.00 | $5,411,209,209.34 |
| 2014 | 3,753,599,199.74 | 2,331,450,000.00 | 6,085,049,199.74 |
| 2015 | 3,644,249,741.35 | 2,490,295,000.00 | 6,134,544,741.35 |
| 2016 | 3,526,643,073.85 | 2,408,090,000.00 | 5,934,733,073.85 |
| 2017 | 3,413,720,119.94 | 2,061,320,000.00 | 5,475,040,119.94 |
| 2018 | 3,315,413,284.27 | 1,965,845,000.00 | 5,281,258,284.27 |
| 2019 | 3,215,569,808.12 | 2,109,105,000.00 | 5,324,674,808.12 |
| 2020 | 3,085,919,906.47 | 2,447,610,000.00 | 5,533,529,906.47 |
| 2021 | 2,974,715,765.31 | 2,123,575,000.00 | 5,098,290,765.31 |
| 2022 | 2,859,495,888.54 | 2,457,740,000.00 | 5,317,235,888.54 |
| 2023 | 2,741,933,585.83 | 2,006,355,000.00 | 4,748,288,585.83 |
| 2024 | 2,644,971,455.64 | 1,801,600,000.00 | 4,446,571,455.64 |
| 2025 | 2,554,252,336.94 | 1,973,070,000.00 | 4,527,322,336.94 |
| 2026 | 2,451,300,583.05 | 2,114,460,000.00 | 4,565,760,583.05 |
| 2027 | 2,334,383,452.49 | 2,244,565,000.00 | 4,578,948,452.49 |
| 2028 | 2,225,059,558.22 | 2,293,845,000.00 | 4,518,904,558.22 |
| 2029 | 2,110,700,080.10 | 2,322,960,000.00 | 4,433,660,080.10 |
| 2030 | 1,995,351,831.81 | 2,534,000,000.00 | 4,529,351,831.81 |
| 2031 | 1,852,272,573.06 | 2,626,415,000.00 | 4,478,687,573.06 |
| 2032 | 1,724,825,965.65 | 2,416,415,000.00 | 4,141,240,965.65 |
| 2033 | 1,593,876,448.76 | 2,496,760,000.00 | 4,090,636,448.76 |
| 2034 | 1,464,702,894.75 | 3,428,225,000.00 | 4,892,927,894.75 |
| 2035 | 1,228,154,341.10 | 3,170,320,000.00 | 4,398,474,341.10 |
| 2036 | 1,039,428,692.01 | 2,720,030,000.00 | 3,759,458,692.01 |
| 2037 | 868,538,965.62 | 2,750,160,000.00 | 3,618,698,965.62 |
| 2038 | 703,674,500.69 | 2,693,625,000.00 | 3,397,299,500.69 |
| 2039 | 570,700,370.20 | 3,187,270,000.00 | 3,757,970,370.20 |
| 2040 | 305,449,243.75 | 1,603,885,000.00 | 1,909,334,243.75 |
| 2041 | 147,737,375.00 | 2,190,000,000.00 | 2,337,737,375.00 |
| 2042 | 45,457,375.00 | 1,319,000,000.00 | 1,364,457,375.00 |
| TOTAL | $64,207,222,626.60 | $69,884,075,000.00 | $134,091,297,626.60 |

(a) The amounts do not reflect offsets due to subsidy payments from the federal government for BABs or transfers from special funds. BABs subsidies received by the State are not pledged to the repayment of debt service.

(b) Includes scheduled mandatory sinking fund payments.

## SCHEDULE OF DEBT SERVICE REQUIREMENTS FOR GENERAL FUND NON-SELF LIQUIDATING BONDS VARIABLE RATE, AS OF JUNE 30, 2012

| | CURRENT DEBT | | |
|---|---|---|---|
| FISCAL YEAR ENDING JUNE 30 | INTEREST (a)(b) | PRINCIPAL (c) | TOTAL |
| 2013 | $34,618,095.97 | $- | $34,618,095.97 |
| 2014 | 34,577,981.53 | - | 34,577,981.53 |
| 2015 | 34,577,981.53 | - | 34,577,981.53 |
| 2016 | 34,597,936.64 | 32,000,000.00 | 66,597,936.64 |
| 2017 | 34,441,974.63 | 326,945,000.00 | 361,386,974.63 |
| 2018 | 33,625,001.05 | 431,245,000.00 | 464,870,001.05 |
| 2019 | 32,574,478.13 | 197,450,000.00 | 230,024,478.13 |
| 2020 | 32,017,531.17 | 184,250,000.00 | 216,267,531.17 |
| 2021 | 31,547,556.16 | 108,600,000.00 | 140,147,556.16 |
| 2022 | 31,353,222.05 | 58,000,000.00 | 89,353,222.05 |
| 2023 | 31,223,970.16 | 88,200,000.00 | 119,423,970.16 |
| 2024 | 31,037,416.59 | 270,600,000.00 | 301,637,416.59 |
| 2025 | 30,546,000.16 | 174,200,000.00 | 204,746,000.16 |
| 2026 | 30,209,060.85 | 318,000,000.00 | 348,209,060.85 |
| 2027 | 29,690,922.47 | 46,100,000.00 | 75,790,922.47 |
| 2028 | 29,579,344.61 | 49,700,000.00 | 79,279,344.61 |
| 2029 | 29,451,485.75 | 70,900,000.00 | 100,351,485.75 |
| 2030 | 29,283,740.16 | 73,800,000.00 | 103,083,740.16 |
| 2031 | 29,099,081.70 | 76,700,000.00 | 105,799,081.70 |
| 2032 | 28,914,458.59 | 79,800,000.00 | 108,714,458.59 |
| 2033 | 28,720,419.86 | 82,700,000.00 | 111,420,419.86 |
| 2034 | 28,536,596.63 | 1,600,000.00 | 30,136,596.63 |
| 2035 | 28,534,190.00 | - | 28,534,190.00 |
| 2036 | 28,534,197.32 | - | 28,534,197.32 |
| 2037 | 28,534,182.68 | - | 28,534,182.68 |
| 2038 | 28,534,190.00 | - | 28,534,190.00 |
| 2039 | 28,534,190.00 | 505,000,000.00 | 533,534,190.00 |
| 2040 | 1,549.57 | 1,000,000.00 | 1,001,549.57 |
| TOTAL | $832,896,755.96 | $3,176,790,000.00 | $4,009,686,755.96 |

(a) The estimate of future interest payments is based on rates in effect as of June 30, 2012. The interest rates for the daily and weekly rate bonds range from 0.11% - 1.33%. The 2009 Stem Cell Bonds currently bear interest at a fixed rate of 5.65% until reset date, and are assumed to bear that rate from reset until maturity.

(b) The amounts do not reflect offsets due to subsidy payments from the federal government for BABs or transfers from special funds. BABs subsidies received by the State are not pledged to the repayment of debt service.

(c) Includes scheduled mandatory sinking fund payments for the 2009 Stem Cell Bonds.

## SCHEDULE OF DEBT SERVICE REQUIREMENTS FOR ENTERPRISE FUND SELF LIQUIDATING BONDS FIXED RATE, AS OF JUNE 30, 2012

| FISCAL YEAR ENDING JUNE 30 | CURRENT DEBT | | |
|---|---|---|---|
| | INTEREST | PRINCIPAL (a) | TOTAL |
| 2013 | $47,814,853.50 | $82,195,000.00 | $130,009,853.50 |
| 2014 | 44,406,243.75 | 104,110,000.00 | 148,516,243.75 |
| 2015 | 41,128,748.08 | 77,565,000.00 | 118,693,748.08 |
| 2016 | 38,115,191.63 | 75,620,000.00 | 113,735,191.63 |
| 2017 | 35,414,507.50 | 61,895,000.00 | 97,309,507.50 |
| 2018 | 32,727,509.65 | 60,655,000.00 | 93,382,509.65 |
| 2019 | 29,906,176.16 | 62,930,000.00 | 92,836,176.16 |
| 2020 | 27,765,621.25 | 28,865,000.00 | 56,630,621.25 |
| 2021 | 26,402,666.25 | 20,320,000.00 | 46,722,666.25 |
| 2022 | 25,453,306.28 | 14,380,000.00 | 39,833,306.28 |
| 2023 | 24,811,378.75 | 12,160,000.00 | 36,971,378.75 |
| 2024 | 24,174,391.25 | 16,075,000.00 | 40,249,391.25 |
| 2025 | 23,316,391.05 | 21,135,000.00 | 44,451,391.05 |
| 2026 | 22,292,511.05 | 22,805,000.00 | 45,097,511.05 |
| 2027 | 21,181,948.65 | 24,695,000.00 | 45,876,948.65 |
| 2028 | 19,997,457.80 | 25,835,000.00 | 45,832,457.80 |
| 2029 | 18,377,697.80 | 42,275,000.00 | 60,652,697.80 |
| 2030 | 16,216,908.69 | 48,325,000.00 | 64,541,908.69 |
| 2031 | 13,861,787.28 | 50,490,000.00 | 64,351,787.28 |
| 2032 | 11,371,757.50 | 53,235,000.00 | 64,606,757.50 |
| 2033 | 8,761,341.25 | 55,095,000.00 | 63,856,341.25 |
| 2034 | 6,889,425.00 | 22,940,000.00 | 29,829,425.00 |
| 2035 | 5,786,720.00 | 23,560,000.00 | 29,346,720.00 |
| 2036 | 4,731,100.00 | 21,210,000.00 | 25,941,100.00 |
| 2037 | 3,670,842.50 | 23,885,000.00 | 27,555,842.50 |
| 2038 | 2,756,210.00 | 15,590,000.00 | 18,346,210.00 |
| 2039 | 2,028,212.50 | 16,330,000.00 | 18,358,212.50 |
| 2040 | 1,257,530.00 | 17,110,000.00 | 18,367,530.00 |
| 2041 | 450,087.50 | 17,925,000.00 | 18,375,087.50 |
| 2042 | 28,050.00 | 350,000.00 | 378,050.00 |
| 2043 | 9,562.50 | 375,000.00 | 384,562.50 |
| TOTAL | $581,106,135.12 | $1,119,935,000.00 | $1,701,041,135.12 |

(a) Includes scheduled mandatory sinking fund payments.

## SCHEDULE OF DEBT SERVICE REQUIREMENTS FOR LEASE-REVENUE DEBT FIXED RATE, AS OF JUNE 30, 2012

| FISCAL YEAR ENDING JUNE 30 | CURRENT DEBT INTEREST (a) | CURRENT DEBT PRINCIPAL (b) | CURRENT DEBT TOTAL |
|---|---|---|---|
| 2013 | $588,211,406.14 | $495,885,000.00 | $1,084,096,406.14 |
| 2014 | 562,355,180.33 | 545,525,000.00 | 1,107,880,180.33 |
| 2015 | 535,011,882.69 | 600,455,000.00 | 1,135,466,882.69 |
| 2016 | 505,478,008.53 | 608,010,000.00 | 1,113,488,008.53 |
| 2017 | 475,165,753.43 | 624,125,000.00 | 1,099,290,753.43 |
| 2018 | 443,957,917.82 | 649,110,000.00 | 1,093,067,917.82 |
| 2019 | 411,617,282.80 | 622,425,000.00 | 1,034,042,282.80 |
| 2020 | 380,238,821.61 | 607,945,000.00 | 988,183,821.61 |
| 2021 | 350,749,241.58 | 561,295,000.00 | 912,044,241.58 |
| 2022 | 322,076,167.33 | 549,065,000.00 | 871,141,167.33 |
| 2023 | 295,580,984.50 | 501,755,000.00 | 797,335,984.50 |
| 2024 | 270,538,728.63 | 433,195,000.00 | 703,733,728.63 |
| 2025 | 247,881,520.06 | 456,025,000.00 | 703,906,520.06 |
| 2026 | 224,236,418.32 | 461,710,000.00 | 685,946,418.32 |
| 2027 | 199,342,898.85 | 486,595,000.00 | 685,937,898.85 |
| 2028 | 173,311,225.88 | 496,905,000.00 | 670,216,225.88 |
| 2029 | 147,477,551.29 | 456,180,000.00 | 603,657,551.29 |
| 2030 | 122,654,635.59 | 443,935,000.00 | 566,589,635.59 |
| 2031 | 98,331,119.99 | 406,260,000.00 | 504,591,119.99 |
| 2032 | 75,086,453.99 | 398,175,000.00 | 473,261,453.99 |
| 2033 | 54,223,334.95 | 285,255,000.00 | 339,478,334.95 |
| 2034 | 36,028,902.23 | 270,050,000.00 | 306,078,902.23 |
| 2035 | 18,051,878.37 | 239,130,000.00 | 257,181,878.37 |
| 2036 | 6,518,031.25 | 64,080,000.00 | 70,598,031.25 |
| 2037 | 3,338,137.50 | 67,265,000.00 | 70,603,137.50 |
| TOTAL | $6,547,463,483.66 | $11,330,355,000.00 | $17,877,818,483.66 |

(a) The amounts do not reflect offsets due to subsidy payments from the federal government for BABs or transfers from special funds. BABs subsidies received by the State are not pledged to the repayment of debt service.

(b) Includes scheduled mandatory sinking fund payments.

## ESTIMATED DEBT SERVICE REQUIREMENTS ON INTENDED SALES OF AUTHORIZED BUT UNISSUED BONDS DURING FISCAL YEARS 2012-13 AND 2013-14

| FISCAL YEAR ENDING JUNE 30 | FY 2012-13 GO SALES DEBT SERVICE | FY 2013-14 GO SALES DEBT SERVICE | FY 2012-13 LRB SALES DEBT SERVICE | FY 2013-14 LRB SALES DEBT SERVICE | TOTAL DEBT SERVICE ALL SALES |
|---|---|---|---|---|---|
| 2013 | $20,015,300 | $- | $15,013,976 | $- | $35,029,276 |
| 2014 | 247,554,100 | 58,397,513 | 72,061,831 | 14,482,643 | 392,496,086 |
| 2015 | 247,555,625 | 326,654,463 | 72,062,713 | 164,219,765 | 810,492,565 |
| 2016 | 247,554,150 | 326,650,038 | 72,067,165 | 164,222,853 | 810,494,205 |
| 2017 | 247,554,538 | 326,652,313 | 72,062,864 | 164,218,839 | 810,488,553 |
| 2018 | 247,550,913 | 326,652,613 | 72,067,370 | 164,221,048 | 810,491,943 |
| 2019 | 247,552,625 | 326,651,913 | 72,067,778 | 164,222,411 | 810,494,726 |
| 2020 | 247,553,488 | 326,651,075 | 72,066,420 | 164,220,333 | 810,491,315 |
| 2021 | 247,552,000 | 326,650,025 | 72,065,631 | 164,222,353 | 810,490,009 |
| 2022 | 247,551,775 | 326,653,475 | 72,067,151 | 164,224,826 | 810,497,228 |
| 2023 | 247,555,788 | 326,650,663 | 72,067,846 | 164,224,248 | 810,498,544 |
| 2024 | 247,551,700 | 326,655,363 | 72,064,343 | 164,216,706 | 810,488,111 |
| 2025 | 247,552,388 | 326,655,538 | 72,068,279 | 164,222,649 | 810,498,853 |
| 2026 | 247,554,675 | 326,653,925 | 72,065,700 | 164,221,600 | 810,495,900 |
| 2027 | 247,555,600 | 326,652,800 | 72,068,131 | 164,223,085 | 810,499,616 |
| 2028 | 247,556,563 | 326,648,500 | 72,066,264 | 164,215,973 | 810,487,299 |
| 2029 | 247,553,863 | 326,651,913 | 72,066,155 | 164,223,614 | 810,495,544 |
| 2030 | 247,553,275 | 326,652,875 | 72,063,269 | 164,223,174 | 810,492,593 |
| 2031 | 247,550,263 | 326,651,000 | 72,068,081 | 164,221,818 | 810,491,161 |
| 2032 | 247,554,763 | 326,655,088 | 72,065,589 | 164,215,928 | 810,491,366 |
| 2033 | 247,551,188 | 326,652,888 | 72,065,800 | 164,221,104 | 810,490,979 |
| 2034 | 247,558,850 | 326,651,813 | 72,063,610 | 164,221,634 | 810,495,906 |
| 2035 | 247,551,213 | 326,648,113 | 72,063,434 | 164,221,805 | 810,484,564 |
| 2036 | 247,551,850 | 326,652,350 | 72,069,231 | 164,219,719 | 810,493,150 |
| 2037 | 247,558,188 | 326,653,688 | 72,064,963 | 164,217,568 | 810,494,405 |
| 2038 | 247,552,325 | 326,655,950 | 72,064,588 | 164,221,761 | 810,494,624 |
| 2039 | 247,556,163 | 326,651,675 | - | 164,217,259 | 738,425,096 |
| 2040 | 247,550,650 | 326,652,488 | - | - | 574,203,138 |
| 2041 | 247,556,425 | 326,653,738 | - | - | 574,210,163 |
| 2042 | 247,553,075 | 326,649,725 | - | - | 574,202,800 |
| 2043 | 247,555,088 | 326,648,713 | - | - | 574,203,800 |
| 2044 | - | 326,647,338 | - | - | 326,647,338 |
| TOTAL | $7,446,628,400 | $9,857,959,563 | $1,816,658,180 | $4,120,004,710 | $23,241,250,853 |

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