Governor-Elect Brown Budget Briefing

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State Treasurer

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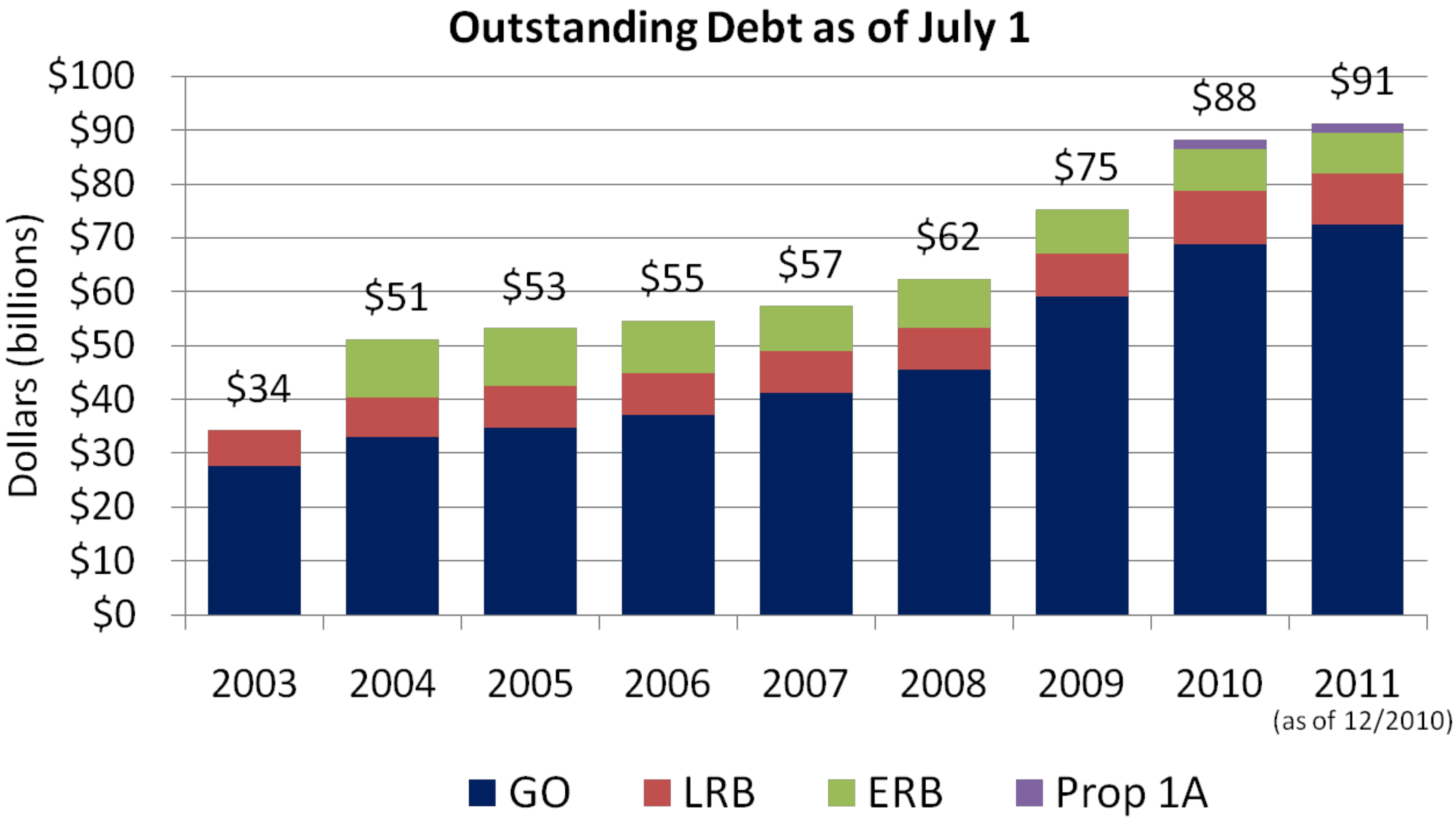
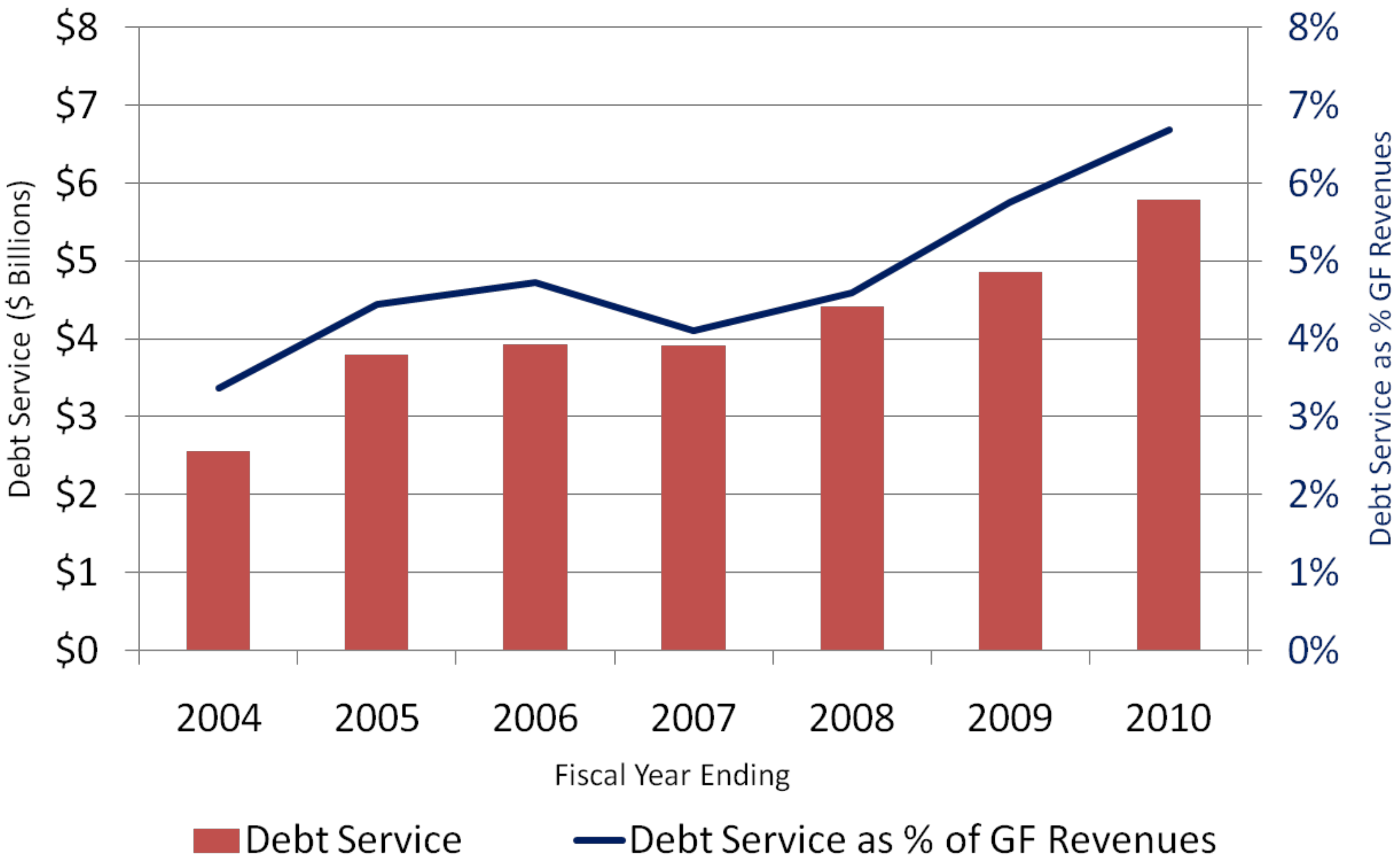
California's Debt Has Increased Significantly Since 2003



- The rating agencies consider the State's debt burden moderate, but note its rapid growth and significant use for deficit borrowings

Notes: Includes Non Self-Liquidating General Obligation (GO) bonds, SPWB Lease Revenue Bonds (LRBs), Economic Recovery Bonds (ERBs) and Prop 1A bonds. Does not include Enterprise Fund Self-Liquidating bonds such as Vets GO Bonds or outstanding commercial paper notes. ERBs were authorized in 2004. Prop 1A bonds were authorized in 2009 and issued by the California Statewide Communities Development Authority.

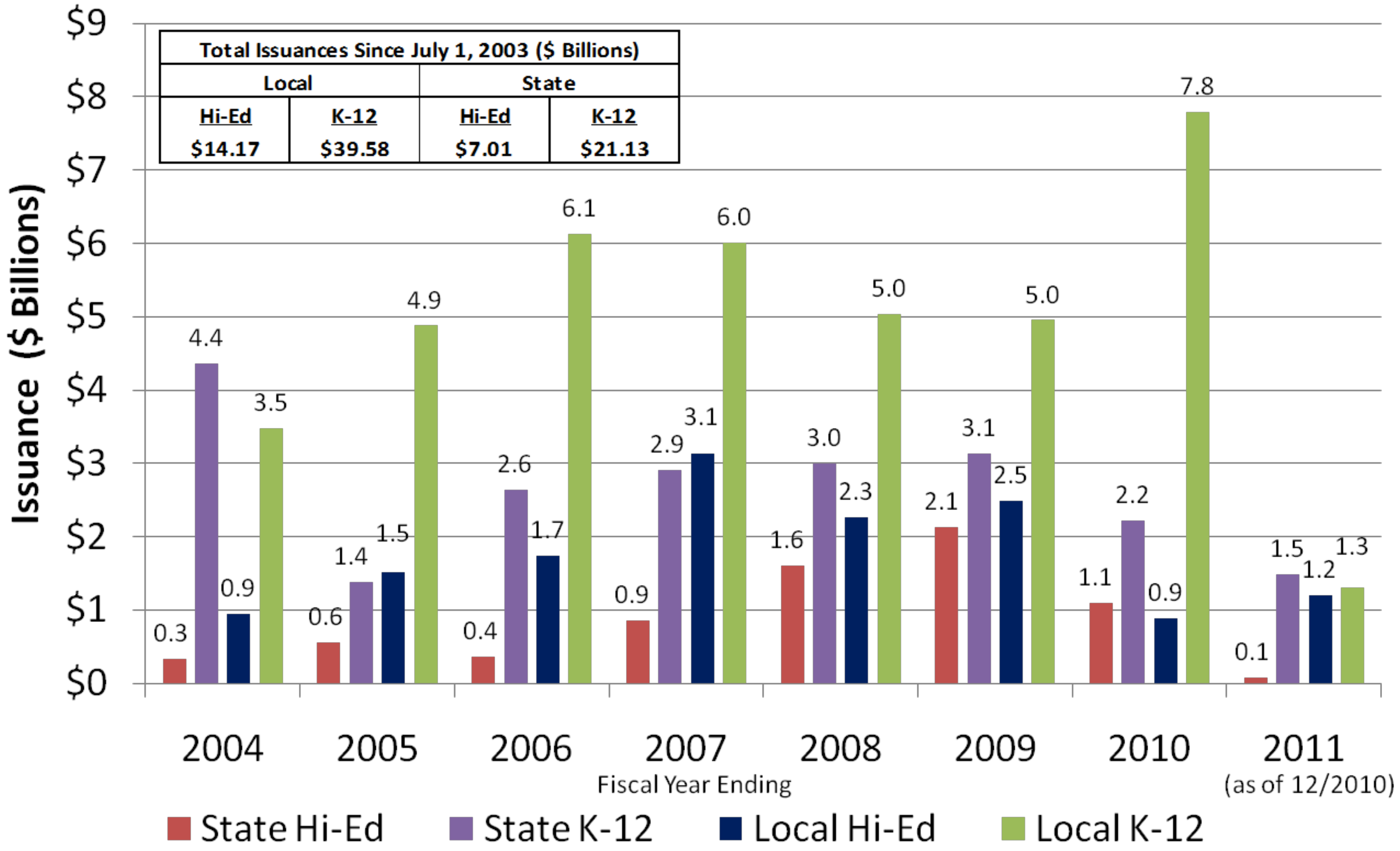
As a Result, Debt Service Has Also Increased



Notes: Includes Non Self-Liquidating GO bonds, SPWB LRBs, and Prop 1A bonds. Does not include Enterprise Fund Self-Liquidating bonds such as Vets GO Bonds, ERBs or outstanding commercial paper notes.

State and Local Issuance for Educational Facilities

Total Issuances Since July 1, 2003 ($ Billions)			
Local		State	
Hi-Ed	K-12	Hi-Ed	K-12
$14.17	$39.58	$7.01	$21.13



Local data provided by the California Debt and Investment Advisory Commission. Local data includes GO bonds, Certificates of Participation/Leases, Limited Tax Obligation bonds, Revenue bonds, and other bonds and notes. State data includes upfront GO bonds issued to fund projects or for repayment of construction loan advances. Excludes $621.75 million of K-12 and $113.01 million of Hi-Ed outstanding commercial paper notes. Excludes any commercial paper or bonds issued to refund previously issued GO bonds.

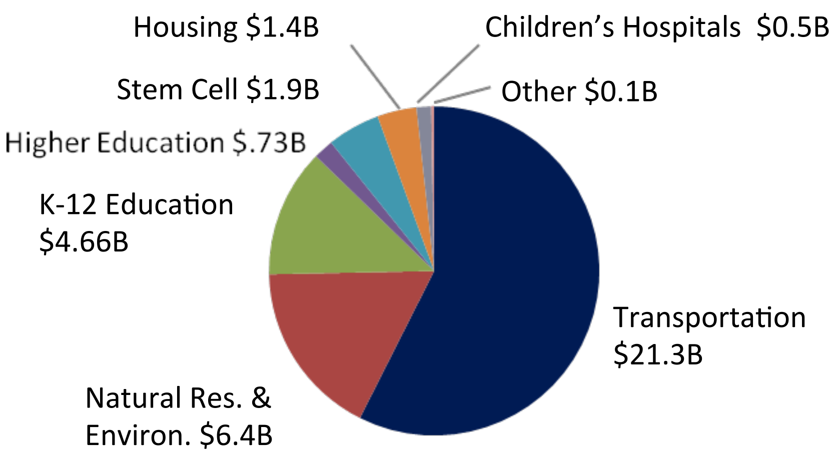
November 2010 Election – Local School Facilities Measures

- Statewide Results
  - Dollar Amount of Approved GO Bond Measures = $3.73 Billion
    - $474 million in Bond Measures were not approved
  - Number of Total Approved Bond Measures = 47
  - Number of Approved Tax Measures = 3
  - Percent of Bond and Tax Measures Approved by Voters = 62%

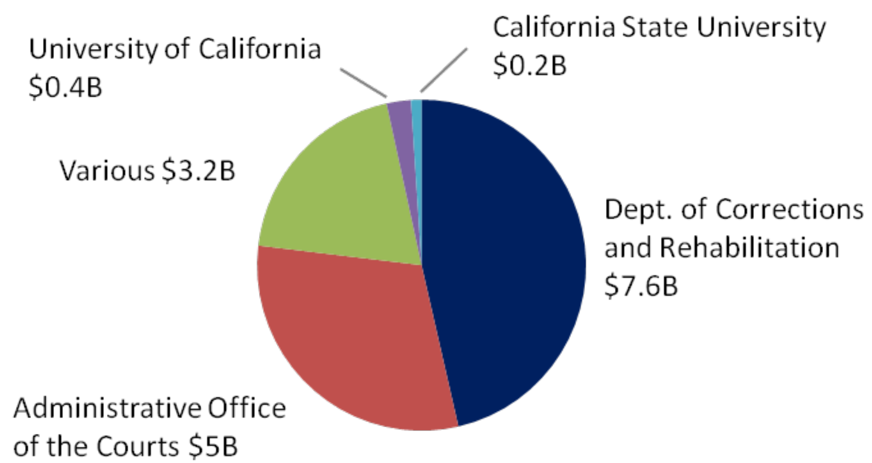
Authorized But Unissued Bonds

- Anticipated additional bonds as of December 2010:
  - $37 billion of voter authorized but unissued GO bonds, including $5.39 billion for education, and
  - $12.3 billion of LRBs authorized by the Legislature and $5.0 billion of LRBs for SB 1407 Court facility projects (of this amount, $868,020,000 is included in the 2010-11 Budget Act authorization)
- The State's General Fund debt service ratio is estimated to peak at 10.2% in FY 2012-13, the year when Proposition 1A bonds mature[(1)]
  - From FY 2013-14 through FY 2019-20, the State's General Fund debt ratio is estimated to range from 7.6% to 9.6%[(1)]

Remaining GO Bond Authorization



Remaining LRB Bond Authorization



1) Assumes DOF's 5-year Revenue projections from the May Revision through 2013-14; thereafter GF revenues grow between two and five percent annually; no additional bonds are authorized by voters or the legislature; and bond issuances are estimated by the Department of Finance as of October 2010.

California's Credit Ratings
(As of 12/6/2010)

General Obligation Ratings of the 10 Most Populous States

State	Moody's Investors Service	Standard & Poor's	Fitch Ratings
Georgia	Aaa	AAA	AAA
North Carolina	Aaa	AAA	AAA
Texas	Aaa	AA+	AAA
Florida	Aa1	AAA	AAA
Ohio	Aa1	AA+	AA+
Pennsylvania	Aa1	AA	AA+
New York	Aa2	AA	AA
Michigan	Aa2	AA-	AA-
Illinois	A1	A+	A
California	A1	A-	A-

Selected Rating Agency Commentary

- Constraints to the State's credit quality:
  - "Reliance on one-time solutions, including deficit borrowing, to resolve budgetary gaps and address longer-term challenges." *(Moody's, November 2010)*
  - "A large and persistent structural imbalance over the last decade combined with pronounced revenue cyclicality periodically leads to acute budget crises. State revenues are dominated by volatile personal income and sales taxes, both of which have experienced severe recession-related declines." *(Fitch, November 2010)*
  - "Recurring episodes of insufficient financial liquidity resulting in the use of extraordinary cash management measures." *(Standard & Poor's, November 2010)*
  - "Institutional weaknesses, including inflexibility imposed by voter initiatives and a partisan policy-making environment, have repeatedly delayed action on addressing fiscal challenges, resulting in unsustainable budgetary solutions and exacerbating future-year budget making." *(Fitch, November 2010)*

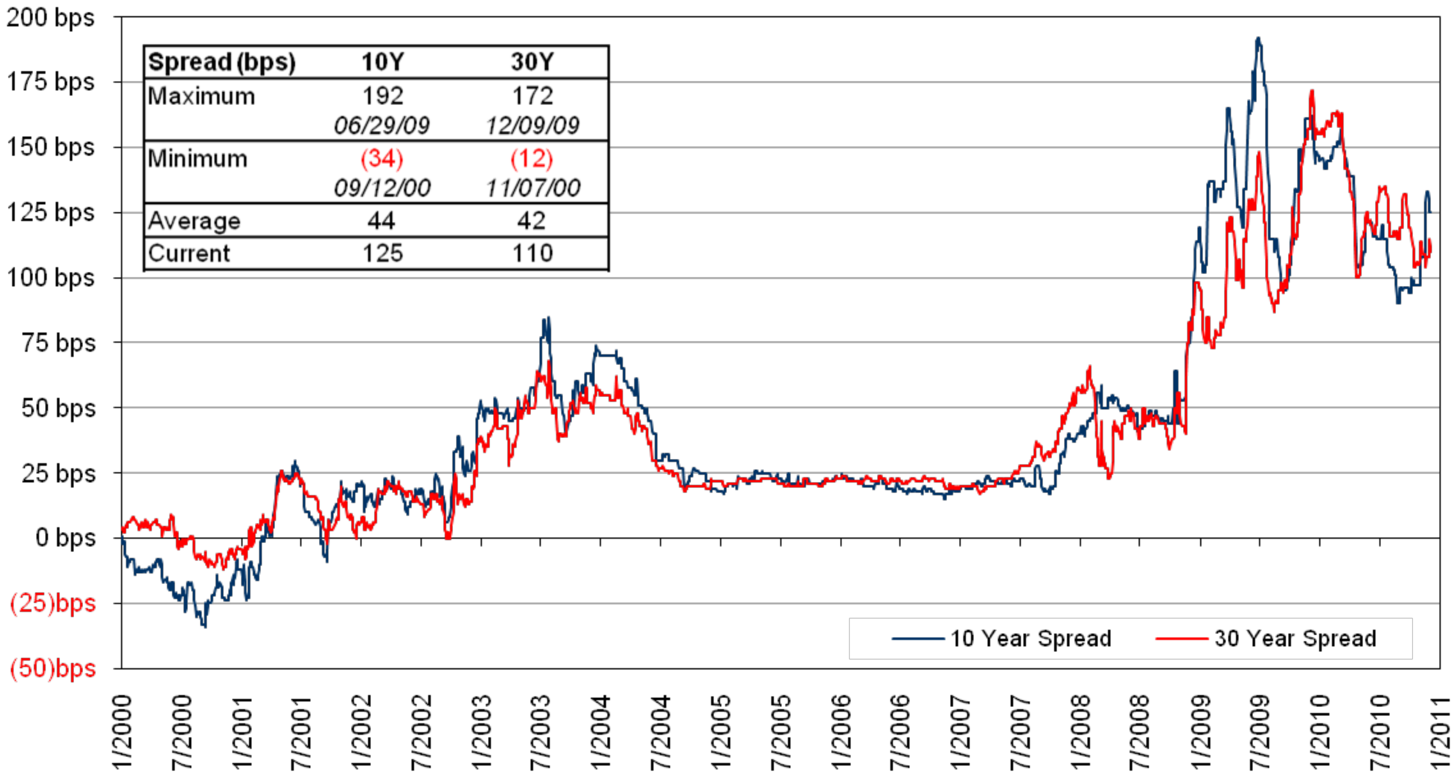
Selected Rating Agency Commentary – Cont'd

- Causes for the State's ratings to be lowered:
  - "An absence of what we view as progress toward resolving the structural mismatch between recurring revenues and expenditures, coupled with additional economic -- and revenue -- deterioration..." *(Standard & Poor's, November 2010)*
  - "Unwillingness to tackle difficulties in the next couple of years, causing cash to weaken dramatically and resulting in the state rolling short-term cash flow notes or selling long-term deficit bonds" *(Moody's, November 2010)*
  - "…a loss of legislative or administrative resolve to maintain sufficient liquidity to fund both the obligations with a prior claim on general fund cash (for education) and the state's debt service payment obligations." *(Standard & Poor's, November 2010)*

California Pays a Significant Penalty for its Low Credit Ratings

- As a result of the State's low credit ratings, large sales volume, and general market conditions, California's tax-exempt GO bond credit spreads[1] have widened dramatically
- Current credit spread between "AAA" rated GO bond and the State's GO bonds has grown to 110 basis points (1.10%), increasing debt service costs
  - For example, a 110 bp spread increase on the State's $37 billion of authorized but unissued GO bonds and $16.4 billion of unissued LRB's equates to more than $12 billion over the life of the bonds

CA GO MMD vs. AAA GO MMD Spread



Spread (bps)	10Y	30Y
Maximum	192 *06/29/09*	172 *12/09/09*
Minimum	(34) *09/12/00*	(12) *11/07/00*
Average	44	42
Current	125	110

(1) Credit spread means the difference in interest rates for bonds in the various rating categories.