

Date: October 30, 2009

To: Members, Senate Natural Resources and Water Committee and
Assembly Water, Parks, and Wildlife Committee

From: Jason Dickerson, Director
State Administration

Subject: Debt Service Information

At the October 28 joint committee hearing on the water package, Assembly Member Caballero asked me to provide the committee members with information concerning projected General Fund debt service obligations and the state's currently authorized, but unissued, general obligation (GO) bonds. That information is provided below, followed by comments on how the Legislature may wish to consider these facts while reviewing the proposed water bond package.

Projected General Fund Debt Service Obligations

In order to describe the state's projected General Fund debt service obligations, this memo generally lists data from the State Treasurer's Office's recent *Debt Affordability Report*. (We are in the process of updating our own debt service projections for our annual *California's Fiscal Outlook* report.)

Over \$130 Billion of Outstanding Bonds and Authorized, Unissued Bonds. As of October 1, 2009, the state had \$58.5 billion of outstanding GO debt expected to be paid off from the General Fund. In addition, the state had \$53.2 billion of authorized, but unissued, GO debt to be paid off from the General Fund. (The state's unissued debt is described later in this memo.) Also as of that date, the state had \$8 billion of outstanding lease revenue bond (LRB) debt to be paid off from the General Fund. Approximately \$11 billion of authorized, but unissued, LRBs remain to be sold, according to the Treasurer's Office. In total, this means that the state had \$66.5 billion of outstanding General Fund debt and over \$64 billion of authorized, but unissued, General Fund bonds.

Payments on Already Authorized Bonds Likely to Peak During the Next Decade. As shown in Figure 1, debt-service payments on the state's outstanding General Fund debt currently are at a \$5.75 billion peak. Currently expected issuance of the state's authorized, but unissued, debt, however, will add debt-service obligations to the General Fund in each of the next 30 years. When accounting for this unissued debt, the Treasurer's Office has forecasted that General Fund debt service would peak at \$9.75 billion in 2017-18. The Treasurer also examined how much of the General Fund such debt service would consume. Using General Fund revenue estimates from the Department of

Finance in July 2009 and making certain assumptions about future General Fund revenue growth, the Treasurer estimated that this debt service would peak at just under 9 percent of revenues in 2013-14.

Figure 1**Projected General Fund Debt Service***(In Billions)*

Fiscal Year	Outstanding Bonds	Authorized But Unissued Bonds	Totals	As Percent Of Revenues
2009-10	\$5.75	\$0.26	\$6.01	6.7%
2010-11	5.68	1.34	7.02	7.7
2011-12	5.35	2.31	7.66	8.8
2012-13	5.06	3.07	8.13	8.5
2013-14	5.41	3.68	9.09	8.9
2014-15	5.31	4.18	9.49	8.7
2015-16	4.96	4.60	9.56	8.3
2016-17	4.75	4.85	9.60	7.9
2017-18	4.86	4.89	9.75	7.6
2018-19	4.49	4.89	9.38	7.0
2019-20	4.41	4.89	9.30	6.6
2020-21	4.14	4.89	9.03	6.1
2021-22	4.05	4.89	8.94	5.7
2022-23	4.08	4.89	8.97	5.4
2023-24	3.99	4.89	8.88	5.1
2024-25	3.99	4.89	8.88	4.8
2025-26	3.96	4.89	8.85	4.6
2026-27	3.63	4.89	8.52	4.2
2027-28	3.63	4.89	8.52	4.0

Source: State Treasurer's Office

How Will Future Debt Authorizations Affect State Debt Payments? In his *Debt Affordability Report*, the Treasurer also estimates how *future* GO and LRB authorizations by the Legislature and voters could affect state debt-payment obligations. In his report, the Treasurer assumes that the Governor's as-yet unadopted Strategic Growth Plan 2 will be adopted (resulting in about \$40 billion of infrastructure investment), along with additional biennial voter-approved bond authorizations beginning in 2012. The Treasurer's Office assumes that voters approve new GO bonds at the same rate they did between 1986 and 2004, adjusted for inflation and population changes. Under this methodology, voters would approve \$13.8 billion of GO bond authorizations in 2012, an amount that would grow every two years thereafter. Under the Treasurer's Office as-

sumptions (as shown in Figure 2), this would mean that debt service would continue to climb each year. The debt service would peak as a percentage of General Fund revenues at 10.6 percent in 2017-18.

Figure 2

**Projected General Fund Debt Service,
Including Treasurer's Assumed Future Bond Authorizations**

(In Billions)

Fiscal Year	Outstanding Bonds	Authorized But Unissued Bonds	Assumed Future Bond Authorizations	Totals	As Percent Of Revenues
2009-10	\$5.75	\$0.26	\$-	\$6.01	6.7%
2010-11	5.68	1.34	0.01	7.03	7.7
2011-12	5.35	2.31	0.05	7.71	8.9
2012-13	5.06	3.07	0.29	8.42	8.8
2013-14	5.41	3.68	0.98	10.07	9.8
2014-15	5.31	4.18	1.60	11.09	10.2
2015-16	4.96	4.60	2.35	11.90	10.4
2016-17	4.75	4.85	3.01	12.61	10.4
2017-18	4.86	4.89	3.79	13.54	10.6
2018-19	4.49	4.89	4.56	13.94	10.4
2019-20	4.41	4.89	5.29	14.59	10.3
2020-21	4.14	4.89	5.92	14.94	10.0
2021-22	4.05	4.89	6.65	15.59	9.9
2022-23	4.08	4.89	7.28	16.25	9.8
2023-24	3.99	4.89	8.05	16.92	9.7
2024-25	3.99	4.89	8.72	17.59	9.6
2025-26	3.96	4.89	9.52	18.38	9.5
2026-27	3.63	4.89	10.24	18.76	9.2
2027-28	3.63	4.89	11.11	19.64	9.2

Source: State Treasurer's Office

Water Bond Debt Service Would Peak at Over \$600 Million Per Year. The most recently introduced water bond proposals—SBX7 2 (Cogdill) and SBX7 3 (Steinberg)—each would authorize issuance of approximately \$9.4 billion of GO water bonds. Accordingly, assuming a 5 percent average annual interest rate, annual debt service on such bonds would peak at about \$611 million per year after all the bonds were issued. If, however, a 6 percent average annual interest rate is assumed, annual debt service would peak at \$683 million per year after all of the bonds were issued. Each of the bills would require that no more than half of these bonds be issued prior to 2015. This means that the new GO water bond debt service probably would reach about \$200 million per

year at some point over the next five years before climbing to the peak level described above about one decade from now.

Existing Bond Authorizations

Attached to this letter is "Appendix A" from the Treasurer's *Debt Affordability Report*, which shows outstanding and authorized, but unissued, GO and LRB debt as of July 1, 2009. (The LRB debt is listed first, followed by the GO debt.) The Treasurer's Office updates this data monthly on its Web site (www.treasurer.ca.gov/bonds/debt.asp).

LAO Comments

Debt Service Is One of the State Budget's Fastest-Growing Obligations. As noted above, the General Fund soon may have annual debt-service payment obligations that total about 9 percent of its revenues. The Treasurer, moreover, has forecasted that these payments eventually will exceed 10 percent of revenues for much of the next decade. To put these figures in perspective, General Fund infrastructure bond debt-service payments equaled under 2 percent of revenues in the late 1980s, climbed to about 4 percent of revenues in 1992-93, and reached about 5.5 percent of revenues in 1994-95. The large bond issuances after the voter's approval of the 2006 bond package, coupled with the recent, sharp decline in General Fund revenues, already has taken this debt service ratio to an unexpectedly high level: 6.7 percent of General Fund revenues, according to the Treasurer's estimates. As debt service climbs to about 9 percent of revenues in the coming years, it will continue to be one of the fastest-growing items in the state's strained General Fund budget.

Increasing Prioritization of Future Bond Issuance May Be Necessary. As we discussed at the hearing, increasing prioritization, or "rationing" (as some have called it), of future state bond issuances may be necessary. This could be the case for at least two reasons. First, credit markets during the past year have been repeatedly stressed, and at times, the state has been unable to sell as many bonds as it wished. This was a major factor in the halt of bond funding for many projects in late 2008 and early 2009. Second, the condition of the General Fund may cause the Legislature in the coming years to limit the portion of the state budget devoted to debt service in order to continue funding for higher-priority, non-bond programs, such as education, health, social services, and prisons. The effect of this decision would be that departments would be forced to scale back—perhaps significantly—their planned pace of bond fund disbursements (for state infrastructure projects and/or disbursements to local government, school district, nonprofit, and other entities). Should the Legislature and voters authorize new GO water bonds, the Legislature should consider how high a priority the proposed water projects will be, compared to those of other GO bond programs, such as those related to K-12 education, higher education, transportation, resources and environmental protection, health care and children's hospitals, prisons, stem cell research, high-speed rail, libraries, state buildings, and others.

Bond Payments Are Essentially the First Funding Priority of the General Fund.

Whenever the state issues bonds, it is making a firm statement about its expenditure priorities. Bonded debt service *will* be paid from the General Fund every year, even if it means that other spending priorities (including education, health, social services, and prisons) have to be cut or taxes have to be raised in order to balance the budget. With the General Fund facing substantial, multibillion-dollar deficits for the foreseeable future, the Legislature already will face tough decisions about General Fund spending priorities in the coming years. Should the Legislature and voters approve a new GO water bond package and pay for these bonds entirely from the General Fund, the Legislature's decisions about spending priorities will become even more challenging than they would be otherwise—to the tune of several hundred million dollars per year. We advise the Legislature to consider the important decisions related to water infrastructure and environmental protection in view of its other General Fund spending priorities.

For more information, contact me at (916) 319-8361 or Jason.Dickerson@lao.ca.gov.

Attachment

cc: Hon. Darrell Steinberg
Hon. Dave Cogdill

Appendix A: The State's Debt

**STATE OF CALIFORNIA
OUTSTANDING AND AUTHORIZED BUT UNISSUED BONDS
AS OF JULY 1, 2009
(\$ THOUSANDS)**

LEASE REVENUE BONDS	BONDS OUTSTANDING	AUTHORIZED BUT UNISSUED
UNIVERSITY OF CALIFORNIA (a)	\$ 2,145,865	\$ 281,632
CALIFORNIA STATE UNIVERSITY	545,820	327,920
CALIFORNIA COMMUNITY COLLEGES	533,550	—
DEPARTMENT OF CORRECTIONS AND REHABILITATION (b)	1,926,262	8,084,247
STATE BUILDINGS (c)	2,313,060	2,618,188
ENERGY EFFICIENCY REVENUE BONDS (d)	14,270	—
TOTAL LEASE REVENUE BONDS	\$ 7,478,827	\$ 11,311,987

(a) 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 are separate from the State General Fund. A portion of The Regents' annual budget is derived from General Fund appropriations.

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

(c) Includes \$277 Million Appropriated for the FISCAL project

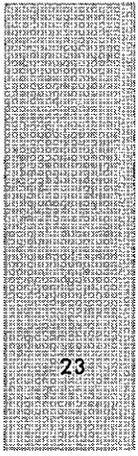
(d) This program is self-liquidating based on energy cost savings.

**STATE OF CALIFORNIA
OUTSTANDING AND AUTHORIZED BUT UNISSUED SPECIAL
REVENUE FUND BONDS (SELF LIQUIDATING)
AS OF JULY 1, 2009
(\$ THOUSANDS)**

SPECIAL REVENUE FUND BONDS	BONDS OUTSTANDING	AUTHORIZED BUT UNISSUED
ECONOMIC RECOVERY BOND ACT	8,223,450	—

**STATE OF CALIFORNIA
 AUTHORIZED AND OUTSTANDING GENERAL OBLIGATION BONDS
 AS OF JULY 1, 2009 (\$ THOUSANDS)**

GENERAL FUND BONDS (NON-SELF LIQUIDATING)	VOTER AUTHORIZATION		BONDS OUTSTANDING (a)	AUTHORIZED BUT UNISSUED (b)
	DATE	AMOUNT		
1988 SCHOOL FACILITIES BOND ACT	11/8/1988	\$ 800,000	\$ 207,965	\$ 2,255
1990 SCHOOL FACILITIES BOND ACT	6/5/1990	800,000	256,665	2,125
1992 SCHOOL FACILITIES BOND ACT	11/3/1992	900,000	429,389	1,789
CALIFORNIA CLEAN WATER, CLEAN AIR, SAFE NEIGHBORHOOD PARKS, AND COASTAL PROTECTION ACT OF 2002	3/5/2002	2,600,000	1,746,515	820,550
CALIFORNIA LIBRARY CONSTRUCTION AND RENOVATION BOND ACT OF 1988	11/8/1988	75,000	30,540	2,595
CALIFORNIA PARK AND RECREATIONAL FACILITIES ACT OF 1984	6/5/1984	370,000	40,440	1,100
CALIFORNIA PARKLANDS ACT OF 1980	11/4/1980	285,000	8,465	—
CALIFORNIA READING AND LITERACY IMPROVEMENT AND PUBLIC LIBRARY CONSTRUCTION AND RENOVATION BOND ACT OF 2000	3/7/2000	350,000	244,090	77,430
CALIFORNIA SAFE DRINKING WATER BOND LAW OF 1976	6/8/1976	175,000	14,110	2,500
CALIFORNIA SAFE DRINKING WATER BOND LAW OF 1984	11/6/1984	75,000	7,870	—
CALIFORNIA SAFE DRINKING WATER BOND LAW OF 1986	11/4/1986	100,000	38,300	—
CALIFORNIA SAFE DRINKING WATER BOND LAW OF 1988	11/8/1988	75,000	36,175	6,960
CALIFORNIA WILDLIFE, COASTAL, AND PARK LAND CONSERVATION ACT	6/7/1988	776,000	229,405	7,330
CHILDREN'S HOSPITAL BOND ACT OF 2004	11/2/2004	750,000	418,285	327,225
CHILDREN'S HOSPITAL BOND ACT OF 2008	11/4/2008	980,000	—	980,000
CLASS SIZE REDUCTION KINDERGARTEN-UNIVERSITY PUBLIC EDUCATION FACILITIES BOND ACT OF 1998 (HI-ED)	11/3/1998	2,500,000	2,203,170	13,600
CLASS SIZE REDUCTION KINDERGARTEN-UNIVERSITY PUBLIC EDUCATION FACILITIES BOND ACT OF 1998 (K-12)	11/3/1998	6,700,000	5,339,880	11,860
CLEAN AIR AND TRANSPORTATION IMPROVEMENT BOND ACT OF 1990	6/5/1990	1,990,000	1,057,655	177,390
CLEAN WATER BOND LAW OF 1970	11/3/1970	250,000	1,000	—
CLEAN WATER BOND LAW OF 1974	6/4/1974	250,000	2,515	—
CLEAN WATER BOND LAW OF 1984	11/6/1984	325,000	28,870	—
CLEAN WATER AND WATER CONSERVATION BOND LAW OF 1978	6/6/1978	375,000	9,740	—
CLEAN WATER AND WATER RECLAMATION BOND LAW OF 1988	11/8/1988	65,000	34,835	—
COMMUNITY PARKLANDS ACT OF 1986	6/3/1986	100,000	13,770	—
COUNTY CORRECTIONAL FACILITY CAPITAL EXPENDITURE BOND ACT OF 1986	6/3/1986	495,000	78,205	—
COUNTY CORRECTIONAL FACILITY CAPITAL EXPENDITURE AND YOUTH FACILITY BOND ACT OF 1988	11/8/1988	500,000	181,360	—
COUNTY JAIL CAPITAL EXPENDITURE BOND ACT OF 1981	11/2/1982	280,000	2,650	—
COUNTY JAIL CAPITAL EXPENDITURE BOND ACT OF 1984	6/5/1984	250,000	150	—
DISASTER PREPAREDNESS AND FLOOD PREVENTION BOND ACT OF 2006	11/7/2006	4,090,000	503,380	3,586,345
EARTHQUAKE SAFETY AND PUBLIC BUILDINGS REHABILITATION BOND ACT OF 1990	6/5/1990	300,000	189,685	14,735
FISH AND WILDLIFE HABITAT ENHANCEMENT ACT OF 1984	6/5/1984	85,000	10,720	—
HIGHER EDUCATION FACILITIES BOND ACT OF 1986	11/4/1986	400,000	11,900	—
HIGHER EDUCATION FACILITIES BOND ACT OF 1988	11/8/1988	600,000	125,920	10,440
HIGHER EDUCATION FACILITIES BOND ACT OF JUNE 1990	6/5/1990	450,000	141,480	2,110
HIGHER EDUCATION FACILITIES BOND ACT OF JUNE 1992	6/2/1992	900,000	490,170	7,235
HIGHWAY SAFETY, TRAFFIC REDUCTION, AIR QUALITY, AND PORT SECURITY BOND ACT OF 2006	11/7/2006	19,925,000	4,480,125	15,428,395
HOUSING AND EMERGENCY SHELTER TRUST FUND ACT OF 2002	11/5/2002	2,100,000	1,434,775	592,115
HOUSING AND EMERGENCY SHELTER TRUST FUND ACT OF 2006	11/7/2006	2,850,000	563,505	2,286,495
HOUSING AND HOMELESS BOND ACT OF 1990	6/5/1990	150,000	4,225	—
KINDERGARTEN-UNIVERSITY PUBLIC EDUCATION FACILITIES BOND ACT OF 2002 (HIGHER EDUCATION)	11/5/2002	1,650,000	1,583,235	14,635



**STATE OF CALIFORNIA
 AUTHORIZED AND OUTSTANDING GENERAL OBLIGATION BONDS
 AS OF JULY 1, 2009 (\$ THOUSANDS) CONTINUED**

GENERAL FUND BONDS (NON-SELF LIQUIDATING)	VOTER AUTHORIZATION		BONDS OUTSTANDING (a)	AUTHORIZED BUT UNISSUED (b)
	DATE	AMOUNT		
KINDERGARTEN-UNIVERSITY PUBLIC EDUCATION FACILITIES BOND ACT OF 2002 (K-12)	11/5/2002	11,400,000	9,948,555	920,815
KINDERGARTEN-UNIVERSITY PUBLIC EDUCATION FACILITIES BOND ACT OF 2004 (HI-ED)	3/2/2004	2,300,000	1,968,230	304,835
KINDERGARTEN-UNIVERSITY PUBLIC EDUCATION FACILITIES BOND ACT OF 2004 (K-12)	3/2/2004	10,000,000	7,572,605	2,272,470
KINDERGARTEN-UNIVERSITY PUBLIC EDUCATION FACILITIES BOND ACT OF 2006 (HI-ED)	11/7/2006	3,087,000	1,556,785	1,529,125
KINDERGARTEN-UNIVERSITY PUBLIC EDUCATION FACILITIES BOND ACT OF 2006 (K-12)	11/7/2006	7,329,000	2,214,985	5,108,720
LAKE TAHOE ACQUISITIONS BOND ACT	8/2/1982	85,000	7,365	—
NEW PRISON CONSTRUCTION BOND ACT OF 1986	11/4/1986	500,000	37,190	—
NEW PRISON CONSTRUCTION BOND ACT OF 1988	11/8/1988	817,000	189,255	4,630
NEW PRISON CONSTRUCTION BOND ACT OF 1990	6/3/1990	450,000	123,215	1,890
PASSENGER RAIL AND CLEAN AIR BOND ACT OF 1990	6/3/1990	1,000,000	332,280	—
PUBLIC EDUCATION FACILITIES BOND ACT OF 1996 (HIGHER EDUCATION)	3/26/1996	975,000	698,830	37,465
PUBLIC EDUCATION FACILITIES BOND ACT OF 1996 (K-12)	3/26/1996	2,025,000	1,350,765	12,965
SAFE DRINKING WATER, CLEAN WATER, WATERSHED PROTECTION, AND FLOOD PROTECTION ACT	3/7/2000	1,970,000	1,390,955	435,255
SAFE DRINKING WATER, WATER QUALITY AND SUPPLY, FLOOD CONTROL, RIVER AND COASTAL PROTECTION BOND ACT OF 2006	11/7/2006	5,388,000	995,425	4,391,875
SAFE NEIGHBORHOOD PARKS, CLEAN WATER, CLEAN AIR, AND COASTAL PROTECTION BOND ACT OF 2000	3/7/2000	2,100,000	1,651,730	244,285
SAFE, CLEAN, RELIABLE WATER SUPPLY ACT	11/5/1996	995,000	730,190	137,665
SAFE, RELIABLE HIGH-SPEED PASSENGER TRAIN BOND ACT FOR THE 21ST CENTURY	11/4/2008	9,950,000	90,045	9,859,955
SCHOOL BUILDING AND EARTHQUAKE BOND ACT OF 1974	11/5/1974	40,000	22,645	—
SCHOOL FACILITIES BOND ACT OF 1988	6/7/1988	800,000	129,570	—
SCHOOL FACILITIES BOND ACT OF 1990	11/6/1990	800,000	325,265	—
SCHOOL FACILITIES BOND ACT OF 1992	6/2/1992	1,900,000	898,195	10,305
SEISMIC RETROFIT BOND ACT OF 1996	3/26/1996	2,000,000	1,581,170	7,960
STATE SCHOOL BUILDING LEASE-PURCHASE BOND LAW OF 1984	11/6/1984	450,000	8,750	—
STATE SCHOOL BUILDING LEASE-PURCHASE BOND LAW OF 1986	11/4/1986	800,000	48,650	—
STATE, URBAN, AND COASTAL PARK BOND ACT OF 1976	11/2/1976	280,000	7,430	—
STEM CELL RESEARCH AND CURES ACT OF 2004	11/2/2004	3,000,000	755,000	2,245,000
VETERANS HOMES BOND ACT OF 2000	3/7/2000	50,000	39,935	9,985
VOTING MODERNIZATION BOND ACT OF 2002	3/5/2002	200,000	81,855	64,825
WATER CONSERVATION BOND LAW OF 1988	11/8/1988	60,000	29,510	8,785
WATER CONSERVATION AND WATER QUALITY BOND LAW OF 1986	6/3/1986	150,000	49,110	21,185
WATER SECURITY, CLEAN DRINKING WATER, COASTAL AND BEACH PROTECTION ACT OF 2002	11/5/2002	3,440,000	2,001,135	1,376,470
TOTAL GENERAL FUND BONDS		\$ 131,032,000	\$ 59,037,759	\$ 53,383,619

(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 Finance Committees. A total of not more than \$2.5 billion of commercial paper principal plus accrued interest may be owing at one time. See "STATE INDEBTEDNESS AND OTHER OBLIGATIONS — Capital Facilities Financing — Commercial Paper Program" above. Bond acts marked with an asterisk (*) are not legally permitted to utilize commercial paper.

SOURCE: State of California, Office of the Treasurer.