

MOODY'S

RATINGS

Rating Action: Moody's Ratings assigns Aa3 to California SPWB's lease revenue bonds; outlook negative

12 Sep 2024

New York, September 12, 2024 -- Moody's Ratings (Moody's) has assigned a Aa3 rating to the California State Public Works Board's (SPWB) approximately \$807 million Lease Revenue Refunding Bonds 2024 Series C (Various Capital Projects). The SPWB anticipates pricing the bonds on September 24, 2024. We maintain Aa3 ratings on approximately \$8 billion of outstanding lease revenue bonds issued by the SPWB. The outlook is negative.

RATINGS RATIONALE

The Aa3 rating is notched once off the State of California's issuer rating to incorporate the more essential nature of the state facilities financed with the debt, a moderate legal framework consisting of a continuing appropriation of lease payments but risk of abatement if the leased property is unavailable to the state, and the large inventory of property owned by the state from which a facility could be substituted into a lease in the event the base rental on the currently leased facility is abated. The California Government Code grants the state the ability to transfer the jurisdiction of property owned by the state from one state agency to another, resulting in broad flexibility to substitute property in the facility lease.

RATING OUTLOOK

The negative outlook reflects the possibility of extended pressure on the state's budget arising from a weakened revenue environment.

FACTORS THAT COULD LEAD TO AN UPGRADE OF THE RATING

- The rating on the SPWB's lease debt could be upgraded if the State of California's issuer rating is upgraded

FACTORS THAT COULD LEAD TO A DOWNGRADE OF THE RATING

- The rating on the SPWB's lease debt could be downgraded if the State of California's issuer rating is downgraded
- The SPWB debt could also be downgraded if the legal framework supporting the payment of lease debt weakens

LEGAL SECURITY

The lease revenue bonds are secured by a pledge of base rental payments to be made by participating state departments pursuant to their own individual lease agreements with the SPWB. In each of their respective facility leases, the departments covenant to take action as may be necessary to include the base rental payments associated with their lease agreement in the state's annual budget and make necessary annual allocations for all such base rental payments. In the aggregate, the base rental payments associated with each lease are equal to debt service on the bonds. The obligation to make base rental payments under the respective facility leases constitutes a current expense of each department, payable from lawfully available funds. Each payment is, however, subject to abatement in the event of substantial interference with the use or occupancy of the leased facility.

The SPWB is issuing the Series C bonds under a stand-alone indenture. The bonds will not be secured by a debt service reserve.

USE OF PROCEEDS

Proceeds of the bonds will refinance certain outstanding lease revenue bonds issued by the SPWB for anticipated interest cost savings.

PROFILE

California is the largest state in the US based on its population of almost 40 million. The state's estimated first quarter 2024 gross domestic product is \$4 trillion. This accounts for about 14% of US economic output and is larger than that of all but four other nations.

The state created the State Public Works Board in 1946 and empowered it to acquire, construct, improve, and operate public buildings and related facilities for state agencies. Since 1985, the SPWB has been active in the construction of facilities for various purposes including courthouses and corrections.

METHODOLOGY

The principal methodology used in this rating was US States and Territories published in July 2024 and available at <https://ratings.moodys.com/rmc-documents/425428>. Alternatively, please see the Rating Methodologies page on

<https://ratings.moodys.com> for a copy of this methodology.

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