

California 2024 Various Series GO Bonds Assigned 'AA+/A-1' Rating, 'AA-' Underlying Rating

September 30, 2024

BOSTON (S&P Global Ratings) Sept. 30, 2024--S&P Global Ratings today assigned its 'AA+/A-1' ratings to the State of California's variable-rate general obligation (GO) bonds, series 2024A1, 2024A2, 2024B1, 2024B2, 2024C1, 2024C2, 2024C3 and 2024D.

At the same time, S&P Global Ratings assigned its 'AA-' underlying rating (SPUR) to each series. The outlook on the SPURs is stable.

"Credit fundamentals supporting California's 'AA-' GO bond long-term rating include a deep and diverse economic base, currently high financial reserves, volatile revenue, and overall stable debt profile," said S&P Global Ratings credit analyst Geoffrey Buswick.

The bonds are being issued as variable-rate demand obligations and will receive credit and liquidity enhancement in the form of an irrevocable direct-pay letter of credit (LOC) provided by Barclays Bank PLC for the series 2024A1 and 2024A2 bonds; PNC Bank N.A. for the series 2024B1 and 2024B2 bonds; Bank of America N.A. for the series 2024C1, 2024C2, and 2024C3 bonds, JPMorgan Chase Bank N.A. for the series 2024D bonds.

The long-term component of the dual ratings reflects our view of the joint support provided by the respective LOC provider for each series and the SPUR on the State of California, the obligor, assuming a low correlation level and addresses our expectation of full and timely interest and principal payments when the bondholders have not exercised the tender option. The short-term component of the ratings solely reflects our short-term rating on the respective LOC provider for each series and addresses our expectation of full and timely interest and principal payments when the bondholders have exercised the tender option.

Under the structure, the tender agent is directed to make debt service payments from funds provided by the respective LOC provider for each series; however, if the tender agent has not received funds from an LOC provider to make such payment, then the tender agent is directed to make such payments from applicable funds obtained from the GO debt service account provided by the state.

Proceeds of the bonds will be used to fund high-speed passenger train projects pursuant to the state's applicable GO bond act.

"The stable outlook reflects our view that the state's overall strong fiscal position and tools position it to manage through potential budgetary strain stemming from weaker-than-estimated revenue collections," added Mr. Buswick. In addition, we expect California will work to achieve longer-term structural balance, even if it opts to use available reserves to balance its budget beyond fiscal 2025.

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