

MOODY'S

RATINGS

Rating Action: Moody's Ratings assigns Aa2 underlying rating to California's variable rate general obligation bonds; outlook negative

24 Sep 2024

New York, September 24, 2024 -- Moody's Ratings (Moody's) has assigned a Aa2 rating to the State of California's \$750 million Variable Rate General Obligation Bonds consisting of the following: \$100 million (Weekly Rate Period) Series 2024A1; \$50 million (Weekly Rate Period) Series 2024A2; \$75 million (Weekly Rate Period) Series 2024B1; \$75 million (Weekly Rate Period) Series 2024B2; \$150 million (Weekly Rate Period) Series 2024C1; \$75 million (Weekly Rate Period) Series 2024C2; \$75 million (Weekly Rate Period) Series 2024C3; and \$150 million (Weekly Rate Period) Series 2024D. We maintain a Aa2 rating on the state's previously issued general obligation bonds. The outlook is negative.

RATINGS RATIONALE

The Aa2 underlying rating on the general obligation bonds is the same as the state's issuer rating due to the broad pledge on the bonds, despite a constitutional priority of funding education. California's Aa2 issuer rating balances the state's massive economic base and presently healthy budget reserves and liquidity against a highly volatile revenue structure and limited operating flexibility relative to most states. The rating also incorporates above average leverage and fixed costs.

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 RATINGS

- Given the negative outlook and challenges associated with a highly volatile revenue structure, we are unlikely to upgrade the state's ratings in the coming year. We could revise the outlook to stable if revenue performance strengthens and moderates downward pressure on state reserves.

FACTORS THAT COULD LEAD TO A DOWNGRADE OF THE RATINGS

- A weakened economic and revenue environment that intensifies budgetary pressure
- Changes in federal policy that carry an increased risk of reduced or delayed funding provided to the state
- Material growth in the state's long-term liabilities and fixed cost burdens
- Continued growth in school district pension contribution burdens that raises pressure on the state to expand support of schools or a general increased likelihood that the state will financially intervene in cases of local government stress

LEGAL SECURITY

The principal of and interest on California's general obligation bonds are payable from moneys in the general fund of the state treasury, subject under state law only to the prior application of moneys in the general fund towards the state's public school system and public institutions of higher education.

USE OF PROCEEDS

The state will use proceeds of the bonds to finance projects under the Safe, Reliable High-Speed Passenger Train Bond Act for the 21st Century.

PROFILE

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

METHODOLOGY

The principal methodology used in these ratings 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.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found on <https://ratings.moodys.com/rating-definitions>.

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