

## **RATING ACTION COMMENTARY**

# **Fitch Revises Basis of CA's Variable Rate GOs' Ser. 2024A-D L-T 'AA' Ratings; Assigns S-T Rtgs**

Mon 30 Sep, 2024 - 4:45 PM ET

Fitch Ratings - New York - 30 Sep 2024: Fitch Ratings has revised the basis for the State of California variable rate general obligation (GO) bonds' Long-Term 'AA' rating and has assigned Short-Term ratings as follows:

Series 2024 A1 'AA'/F1'

Series 2024 A2 'AA'/F1'

Series 2024 B1 'AA'/F1'

Series 2024 B2 'AA'/F1'

Series 2024 C1 'AA'/F1+'

Series 2024 C2 'AA'/F1+'

Series 2024 C3 'AA'/F1+'

Series 2024 D 'AA'/F1+'

The Rating Outlook is Stable for the long-term rating of each series of bonds.

## **KEY RATING DRIVERS**

The Long-Term 'AA' rating assigned to each series of bonds is based on the higher of the underlying long-term rating assigned to the bonds by Fitch (currently rated 'AA/Stable Outlook), and the long-term rating assigned by Fitch to: (i) Barclays Bank PLC (A+/F1,

Stable) for the Series 2024A1 and 2024A2; (ii) PNC Bank, N.A. (A+/F1, Stable) for Series 2024B1 and 2024B2; (iii) Bank of America, N.A. (AA/F1+, Stable) for Series 2024C1, 2024C2 and 2024C3 and (iv) JPMorgan Chase Bank, N.A. (AA/F1+/Stable) for Series 2024D, the banks providing the irrevocable direct-pay letters of credit (LOCs) securing the bonds. The Short-Term 'F1' and 'F1+' ratings are based solely on Banks providing such series LOCs.

For more information on the underlying rating on the State of California, see the press release dated Sept. 18, 2024 on Fitch's website at [www.fitchratings.com](http://www.fitchratings.com).

The series 2024A, 2024C and 2024D LOCs have an initial stated expiration date of Oct. 08, 2027, unless extended or earlier terminated and supports bonds in the daily and weekly interest rate modes only.

The Series 2024B LOC has an initial stated expiration date of Oct. 09, 2029, unless extended or earlier terminated and supports bonds in the daily and weekly interest rate modes only

Each bank is obligated to make regularly scheduled payments of principal of and interest on the bonds in addition to payments due upon maturity and redemption, as well as purchase price for tendered bonds. Additionally, the bond obligor is in the flow of funds to make timely payments of principal and interest due upon maturity and redemption. Each LOC provides full and sufficient coverage of principal plus an amount equal to 35 days of interest at a maximum rate of 11% based on a year of 365 days and purchase price for tendered bonds, while in the daily or weekly rate modes.

Each series of bonds will initially bear interest in a weekly rate mode and may be converted to daily, flexible, indexed or term period.

While bonds bear interest in the weekly or daily rate modes, interest payments are on the first business day of the month commencing Dec. 1, 2020. The tender agent is obligated to make timely draws on the LOC to pay principal, interest, and purchase price. Funds drawn under the LOC are held uninvested and are free from any lien prior to that of the bondholders.

Holder may tender their bonds to the tender agent with the requisite prior notice of the purchase. Each series of bonds is subject to mandatory tender upon: (1) conversion of the interest rate; (2) expiration, substitution or termination of such LOC; and (3) following receipt of written notice from the bank of an event of default under such series

reimbursement agreement. Optional and mandatory redemption provisions also apply to the bonds. There are no provisions for the issuance of additional bonds.

The remarketing agents are: Series 2024A1 - Barclays Capital, Inc.; Series 2024A2 - Wells Fargo Corporate & Investing Banking; Series 2024B1 - PNC Capital Markets, LLC; Series 2024B2 - Morgan Stanley & Co., LLC; Series 2024C1 - BofA Securities, Inc.; Series 2024C2 - Piper Sandler & Co.; Series 2024C3 - Raymond James & Associates, Inc.; Series 2024D - J.P. Morgan Securities, LLC.

The bonds are expected to be delivered on or about Oct. 10, 2024.

Proceeds of the bonds will be used to fund projects under the Bond Act.

## **RATING SENSITIVITIES**

### **Factors that could, individually or collectively, lead to negative rating action/downgrade:**

--The long-term rating assigned to each series of bonds is based on the higher of the long-term rating assigned to the bonds ('AA/Stable) and long-term rating assigned to the bank providing credit enhancement for such series and will be downgraded to reflect all changes to those ratings.

--The short-term rating assigned to each series of Bonds will be adjusted downward in conjunction with the short-term rating of the bank.

### **Factors that could, individually or collectively, lead to positive rating action/upgrade:**

--The long-term rating assigned to the Bonds is based on the higher of the long-term rating assigned to the bonds ('AA/Stable) and long-term rating assigned to each bank providing credit enhancement and will be upgraded to reflect all changes to those ratings.

--The Short-Term 'F1' rating assigned to the Series 2024A and 2024B bonds will be adjusted upward in conjunction with the short-term rating of such bank.

--The Short-Term 'F1+' rating assigned to the Series 2024C and 2024D bonds is at Fitch's highest short-term rating category and cannot be upgraded.

## **REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING**

The principal sources of information used in the analysis are described in the Applicable Criteria.

## **PUBLIC RATINGS WITH CREDIT LINKAGE TO OTHER RATINGS**

The long-term rating is inked to the rating assigned to the underlying bonds and the rating of the bank providing credit support. The short-term rating is linked to the rating of the bank providing liquidity support.

[VIEW ADDITIONAL RATING DETAILS](#)

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## **APPLICABLE CRITERIA**

[U.S. Public Finance Letter of Credit-Supported Bonds and Commercial Paper Rating Criteria \(pub. 02 Feb 2021\) \(including rating assumption sensitivity\)](#)

[U.S. Public Finance Structured Finance Rating Criteria \(pub. 18 Jan 2024\) \(including rating assumption sensitivity\)](#)

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The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Fitch also provides information on best-case rating upgrade scenarios and worst-case rating downgrade scenarios (defined as the 99th percentile of rating transitions, measured in each direction) for international credit ratings, based on historical performance. A simple average across asset classes presents best-case upgrades of 4 notches and worst-case downgrades of 8 notches at the 99th percentile. For more details on sector-specific best- and worst-case scenario credit ratings, please see [Best- and Worst-Case Measures](#) under the Rating Performance page on Fitch's website.

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