

MOODY'S

INVESTORS SERVICE

Rating Action: Moody's assigns Aa2 to California's general obligation bonds; outlook stable

23 Aug 2022

New York, August 23, 2022 -- Moody's Investors Service has assigned a Aa2 rating to the State of California's approximately \$2.4 billion General Obligation Bonds, consisting of \$1.3 billion Various Purpose General Obligation Bonds and \$1.1 billion Various Purpose General Obligation Refunding Bonds. The state anticipates pricing the bonds on September 8, 2022. Moody's maintains a Aa2 on the state's previously issued general obligation bonds. The outlook is stable.

RATINGS RATIONALE

California's Aa2 general obligation bond rating is the same as the state's issuer rating of Aa2, which incorporates the state's massive and diverse economy, and its healthy budget reserves and liquidity. The state's credit profile also encompasses underlying challenges such as high revenue volatility given heavy reliance on income taxes, lower flexibility to adjust spending and raise revenue compared to other states, and above average leverage and fixed cost burdens.

RATING OUTLOOK

The outlook for the State of California is stable and reflects the expectation that the state's massive economy and wealth will generate the resources necessary to sustain structural balance in a period of economic stability or to withstand a moderate shock to revenue in a period of economic weakness.

FACTORS THAT COULD LEAD TO AN UPGRADE OF THE RATINGS

- Governance changes that enhance the state's flexibility to respond to negative revenue variances in a timely manner
- Moderation of the state's leverage (debt and unfunded retirement benefits) and fixed cost burdens

FACTORS THAT COULD LEAD TO A DOWNGRADE OF THE RATINGS

- Budgetary imbalance or use of non-recurring revenue to meet spending needs that constrains the state's overall operating flexibility
- Weakened liquidity that increases the state's vulnerability to a drop in tax revenue
- Substantial growth in the state's long-term liabilities and fixed cost burdens
- Changes in federal policy linked to a general reduction in funding or reduced financial support of state initiatives, such as Medicaid expansion
- 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 all of 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

Proceeds of the bonds will finance or refinance capital facilities and other voter-approved projects and costs related to the applicable bond acts, and refund certain outstanding general obligation bonds and commercial paper.

PROFILE

California is the largest state in the US, based on its population of almost 40 million. The state's gross domestic product, as of the first quarter of 2022, is \$3.6 trillion.

METHODOLOGY

The principal methodology used in these ratings was US States and Territories Methodology published in March 2022 and available at <https://ratings.moodys.com/api/rmc-documents/356901>. Alternatively, please see the Rating Methodologies page on <https://ratings.moodys.com> for a copy of this methodology.

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