JUST THE FACTS

CALIFORNIA'S PUBLIC DEBT

FEBRUARY 2008

- **CALIFORNIA HAS MORE THAN $60 BILLION IN DEBT – AND THAT AMOUNT IS GROWING RAPIDLY.**
  California has no law limiting the amount of public debt the state can accumulate. Adding debt approved by voters but not yet borrowed brings the total to $136 billion, and the administration's Strategic Growth Plan calls for $35 billion more. The state's tax-supported debt comes to $1,638 per person, the 10th largest in the nation (or 14th largest as a share of income). Including current borrowing plans, Californians will carry the largest state debt burden in the nation ($4,679 per person).

- **CALIFORNIA IS AMONG ONLY A FEW STATES THAT HAS BORROWED TO CLOSE A BUDGET GAP.**
  Most states, including California, require a balanced budget. California became the third state in recent years (after Louisiana in 1988 and Connecticut in 1991) to explicitly use deficit borrowing when it issued $11 billion in "Economic Recovery Bonds" in 2004. The governor's 2008-09 budget calls for borrowing an additional $3 billion to cover current budget shortfalls. This additional debt is allowed under a constitutional amendment approved by voters at the time of the 2004 authorization.

- **CALIFORNIA'S BOND RATING MAY OVERSTATE RISK, BUT IT STILL AFFECTS BORROWING COSTS.**
  California's general obligation bond rating of A1/A+/A+ (Moody's/ Standard and Poors / Fitch) is lower than all states except Louisiana. These ratings compare governments to each other, and they include debt management and budget practices along with default risk. Governments with permanent budget solutions, stable revenue sources, and fiscal contingency plans generally have higher ratings than those that do not. Markets charge higher interest rates to lower rated governments. Thus, even though California's default risk is very low, it can expect to pay more to borrow than its higher rated counterparts as long as its budget and debt practices persist.

- **SMALL INTEREST RATE DIFFERENCES HAVE LARGE IMPLICATIONS FOR BORROWING COSTS.**
  California borrows large amounts, and borrowing costs add up. For example, California borrowed $91 million at 5.053 percent on December 1, 2007. A difference of one tenth of one interest rate point equates to about $2 million in total interest payments over the life of this debt, all else equal.

- **MOST STATE DEBT IS TAX SUPPORTED.**
  Bonds with a general obligation pledge (promising to raise tax revenues to the levels needed to repay them) are the least expensive form of debt, but they often require voter approval. General obligations make up 72 percent of California's outstanding debt. Another 13 percent is secured by leases paid with tax revenue. The remaining amount (15 percent) is supported by specific revenues from government projects and operations (such as transit fares, tolls, and utility charges).

- **CITIZENS KNOW LITTLE ABOUT PUBLIC DEBT BUT DISLIKE BORROWING TO BALANCE THE BUDGET.**
  In a May 2007 PPIC Statewide Survey, 52 percent of voters said that they know very little (43 percent) or nothing (9 percent) about how bonds are paid for in California. When asked in January 2008 about how they preferred to balance the current state budget, only 7 percent responded that it was "okay to borrow money and run a budget deficit."

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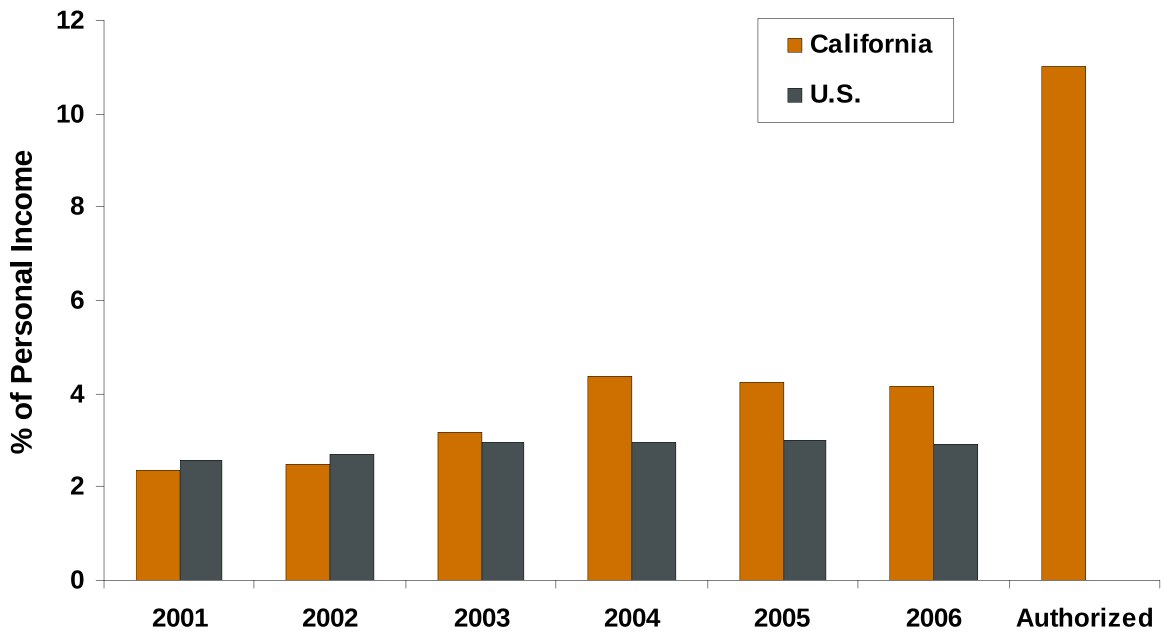
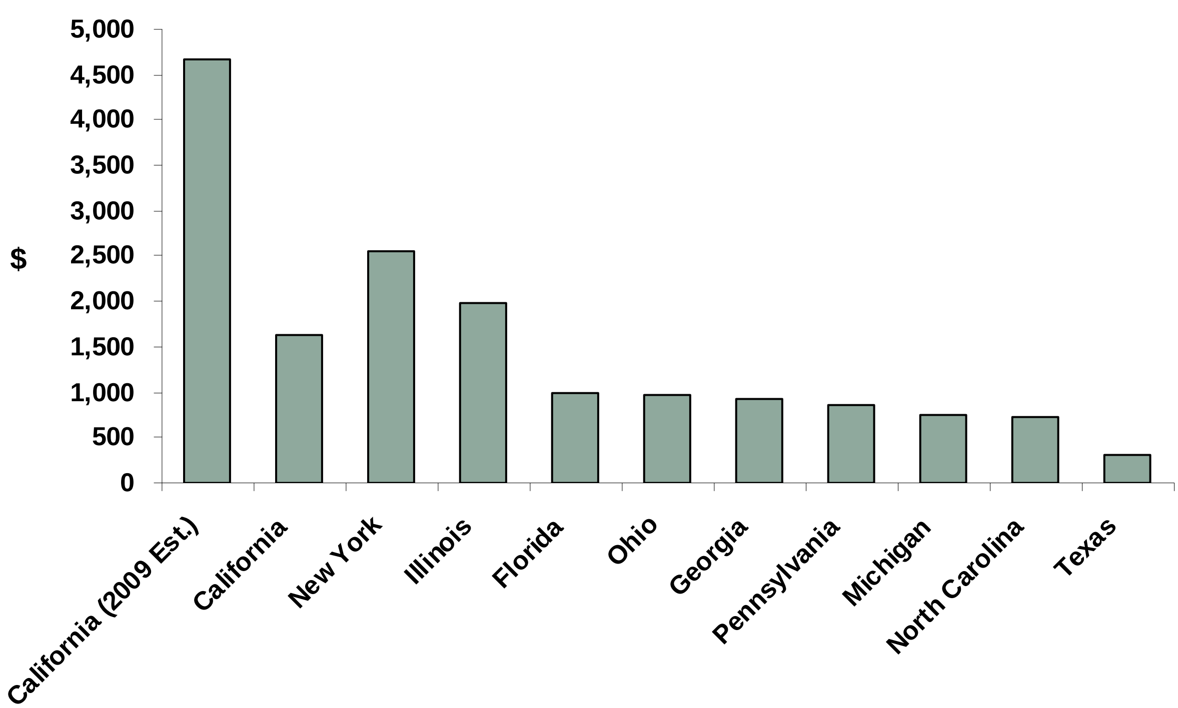
Debt As Percent of Personal Income: California vs. National Average (Excluding California), 2006



Debt Per Person, Ten Largest States, 2006



Sources: Moody's Investors Service, Inc; California State Treasurer; Thomson Financial; U.S. Department of Commerce, Bureau of Economic Analysis; U.S. Census Bureau.

Contact: Ellen Hanak

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