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California 'A+' GO Rating Placed On CreditWatch Positive On Accelerating Revenue And Debt Paydown

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SAN FRANCISCO (Standard & Poor's) May 21, 2015--Standard & Poor's Ratings Services today placed its 'A+' general obligation (GO) and 'A' appropriation-backed debt ratings on California on CreditWatch with positive implications. The CreditWatch placement follows the release on May 14 of Gov. Edmund G. Brown's revised budget proposal for fiscal 2016.

"Fueled by upward revenue estimates, the budget plan shows the state's fiscal rebound not just continuing, but accelerating," said Standard & Poor's credit analyst Gabriel Petek. "Under the governor's plan, the state would pay down most of a large funding obligation owed to its schools, continue to retire what remains of its budgetary debts, and make significant deposits to its reserve funds," added Mr. Petek.

Progress on these fronts, pending agreement from the legislature, would be well ahead of what the Department of Finance (DOF) projected as recently as January. We expect to resolve the CreditWatch within three months.

"Our primary focus," according to Mr. Petek, "will be on the enacted budget and whether it reflects a fiscal structure similar to that of the governor's revised budget proposal. In our view, the governor's revised proposal avoids a disproportionate reliance on windfall-like revenues from capital gains to fund ongoing commitments, thus allowing the DOF to forecast budgetary balance beyond fiscal 2016. Insofar as the forecast the DOF produces after the budget is enacted shows the same, we could raise the state's rating, mostly likely by

one notch. We expect any potential rating action would follow the DOF's release of the state's projected monthly cash flows, which typically become available within a month of final budget enactment."

The "May Revise" also shows the state paying over \$800 million more in budgetary debt than in January. The state's success in reaching these fiscal milestones while still projecting underlying operating balance, including into future years, has led us to reevaluate the near-term trajectory of California's credit quality. We have concluded that, to the extent the enacted budget anticipates fiscal results similar to those shown in the revised proposal, the state's credit quality could be consistent with a higher rating.

RELATED CRITERIA AND RESEARCH

Related Criteria

- USPF Criteria: State Ratings Methodology, Jan. 3, 2011
- USPF Criteria: Financial Management Assessment, June 27, 2006
- USPF Criteria: Appropriation-Backed Obligations, June 13, 2007

Related Research

U.S. State And Local Government Credit Conditions Forecast, April 2, 2015

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