



STATE OF CALIFORNIA

GENERAL OBLIGATION BOND PROGRAM UPDATE

CALIFORNIA'S COALITION FOR ADEQUATE SCHOOL HOUSING SPRING CONFERENCE

MAY 21, 2009



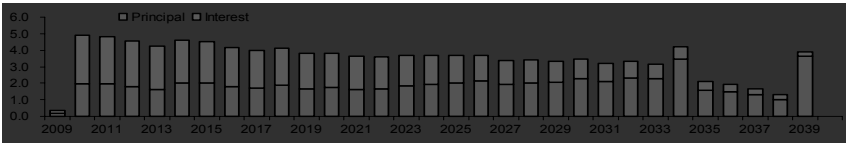
Presentation Summary

- General Obligation Bond Program Overview
- Historical GO Bond Funding Process
- The Pooled Money Investment Board
- The AB 55 Loan Freeze
- March and April 2009 Bond Sales
- Future Funding of GO Bond Programs

General Obligation Bond Program Overview

- All General Obligation bonds must be approved by a majority of voters in a statewide election
- Secured by the full faith and credit of the State
- Payable from any moneys in the General Fund, subject only to the prior application of such moneys to the support of the public school system and public institutions of higher education
- Currently rated A/A2/A
- Outstanding General Obligation debt is approximately 93% fixed rate

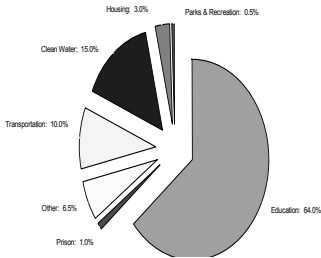
Annual General Obligation Debt Service (Total GO Debt Outstanding as of May 1 2009: \$59.0 billion)



Includes only bonds payable solely from General Fund.

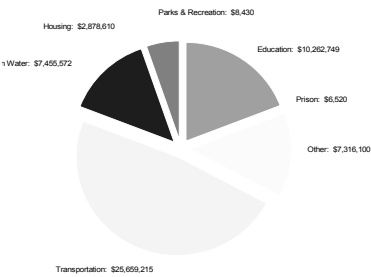
General Obligation Bond Program Overview - Continued

Uses of General Obligation Authorization (Outstanding as of May 2009) (thousands)



Total General Obligation Bonds Outstanding: \$59,012,744

Authorized but Unissued General Obligation Bonds (as of May 2009) (thousands)



Total Authorized but Unissued General Obligation Bonds: \$53,587,196

Historical GO Bond Funding Process

- Voters approve General Obligation Bond Act
- Legislature authorizes administering agency/department to spend available bond funds
- Finance Committee created by Bond Act authorizes issuance of bonds and interim financing from the Pooled Money Investment Board (PMIB)
- Administering agency/department applies for a loan (referred to as AB 55 loan) from PMIB
- As agency/departments spends funds, the State Treasurer's Office issues commercial paper or long-term GO bonds to pay down loan and reimburse PMIB
- Bonds typically sold 5-6 times per year

Historical GO Bonds Funding Process - Continued

- Benefits of AB 55 loans:
 - Gives administering agencies/departments quick access to funds, increasing program and project flexibility
 - Assists in compliance with federal tax laws for tax-exempt bonds
 - Provides State Treasurer's Office with flexibility to schedule and pace GO bond sales
 - AB 55 loans have been solid investment
 - Worked well for 20 years

Pooled Money Investment Board

- Consists of State Treasurer (Chair), State Controller and the Director of Department of Finance
- Governs the Pooled Money Investment Account (PMIA), which is the source of funds for making AB 55 loans
- PMIA is made up of the State's General Fund and Special Funds, and Local Agency Funds
- Local Agency funds are not used to make AB 55 loans
- PMIB is not involved in the issuance of GO bonds or the decision on how to allocate bond funds

The AB 55 Loan Freeze

- On December 17, 2008, the Pooled Money Investment Board voted to freeze disbursements on AB 55 loans
- Reasons for freeze:
 - State Treasurer's Office had been unable to issue bonds since June 2008 and it was unclear when bonds would be able to be issued
 - Amount of unreimbursed AB 55 loan expenditures was \$5.1 billion in early December and was projected to reach over \$9.5 billion by June 2009 if agencies/departments continued to spend at same pace
 - On December 10, 2008, the Department of Finance released updated cash flow estimates showing that the State would run out of available cash in February 2009 absent corrective actions by the Legislature and Governor
- On January 16, 2009, the PMIB voted to partially ease the freeze by authorizing \$650 million of disbursements through June 2009

The AB 55 Loan Freeze - Continued

- On March 18, 2009, the PMIB voted to authorize \$500 million of additional AB 55 loan disbursements upon the successful sale of \$4 billion of GO bonds in late March
 - March bond sale was possible because on the Governor signed a package of bills on February 20, 2009 that closed a projected \$41.7 billion budget gap for the 2008-09 and 2009-10 fiscal years
- The loan freeze continues but project funding is now being provided directly from “upfront” bond sale proceeds

March and April GO Bond Sales

- On March 22, 2009, the State Treasurer’s Office sold \$6.54 billion of tax-exempt GO bonds
 - \$3.87 billion used to repay PMIA loans
 - \$2.67 billion used for direct project funding
 - Third largest tax-exempt bond issue in U.S. history and largest ever long-term tax-exempt general obligation bond issue
- On April 22, 2009, the State Treasurer’s Office sold \$6.85 billion of taxable GO bonds, including \$5.23 billion of Build America Bonds
 - \$1.04 billion used to repay PMIA loans
 - \$5.82 billion used for direct project funding
 - 3rd largest U.S. investment grade, taxable bond transaction completed in 2009 by a non-financial institution issuer
- Three GO bond private placements totaling \$520.36 million with local transportation agencies were also completed

March and April GO Bond Sales - Continued

- Total of \$8.98 billion of direct project funding from upfront bond proceeds from public and private bond issues
- Funding for Office of Public School Construction - \$1.98 billion
 - \$548 million from March sale
 - \$1.44 billion from April sale
 - OPSC was allocated more funding from the two public sales than any other agency/department (next largest was Caltrans with \$1.26 billion)



Future Funding of GO Bond Programs

- Given the State's cash constraints, the majority of funding for GO bond programs is likely to be from upfront bond proceeds instead of AB 55 loans
 - Bond proceeds can only be used for purposes authorized by voters, which does not include a loan to the General Fund to support State operations
- The next long-term GO bond sale will likely not occur until:
 - The Legislature and Governor resolve the current projected 09-10 budget gap of \$15.4 billion (\$21.3 billion if voters reject the May 19th ballot measures)
 - The State completes the bulk of its cash flow borrowing - currently estimated to be approximately \$13 billion (amount to be updated within next week or two)