STATE TREASURER JOHN CHIANG
AND CALIFORNIA DEPARTMENT OF FINANCE

NEWS RELEASE

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State Treasurer Chiang, Finance Director Cohen Act to Make Final Payment on 2004 Economic Recovery Bonds

SACRAMENTO – Closing-out a troubled budget plan that was approved 11 years ago, State Treasurer John Chiang and Director of Finance Michael Cohen today made the final payment of $929.7 million on the State's 2004 Economic Recovery Bonds (ERBs).

"More than a decade ago, desperation coupled with fiscal shortsightedness caused Sacramento lawmakers to pass a budget relying heavily on borrowing from the next generation of Californians. To the tune of over $19 billion, Californians since 2004 have endured haircuts on critical public services in order to payoff that debt," said Chiang. "With today's final payment, the 2004 Budget is finally balanced and closed. Importantly, may we never forget the folly of living outside of our means by turning to costly, long-term debt to finance short-lived benefits."

"This final payment closes the books on the failed budgets of more than a decade ago," said Director Cohen. "By continuing to pay down debts and save for a rainy day, California can avoid repeating the past."

The payment closes the books on the Proposition 57 bonds, approved by voters in March 2004 to refinance accumulated budgetary debt. Overall, bond payments made since 2004 total $14.2 billion in principal and $4.8 billion in interest, with additional administrative costs of $153 million.

The final steps in retiring the bonds occurred when Treasurer Chiang executed escrow certificates for the full defeasance (payoff) of the bonds, and notified the Director of Finance that an escrow fund had been established to provide for all remaining bond payments.

With the escrow established, Director Cohen then certified to the Treasurer and the state Board of Equalization that "payment of the principal of and interest on all of the Bonds and Ancillary Obligations Outstanding has been irrevocably provided," and that "no Bonds or Ancillary Obligations are deemed 'outstanding'". Cohen also certified that "no other bonds were or will be issued" pursuant to Proposition 57.

The 2014 Budget Act provided $1.6 billion from the Budget Stabilization Account so that the recovery bonds could be paid off in the summer of 2015 – one year ahead of the previously scheduled payoff date. Because the debt is being retired earlier, finance officials estimate that the State will save approximately $60 million in debt service costs associated with a longer payoff period.

Sale of the bonds was conditioned on passage of a companion measure, Proposition 58, which voters also approved in the same election. That measure created the State's Rainy Day Fund – the Budget Stabilization Account – and forbade future bond sales to finance budgetary debt.

In 2014, voters approved Proposition 2, spearheaded by Governor Edmund G. Brown Jr., which significantly strengthened the Rainy Day Fund created by Proposition 58. Specifically, Proposition 2:

- Requires deposits into the Rainy Day Fund whenever capital gains revenues rise to more than 8 percent of General Fund tax revenues. In addition, 1.5 percent of annual General Fund revenues are set aside each year.
- Sets the maximum size of the Rainy Day Fund at 10 percent of General Fund revenues.
- Requires half of each year's deposit for the next 15 years be used for supplemental debt payments or other long-term liabilities. After that time, at least half of each year's deposit would be saved, with the remainder used for supplemental debt payments or savings.
- Allows the withdrawal of funds only for a disaster or if spending remains at or below the highest level of spending from the past three years. The maximum amount that could be withdrawn in the first year of a recession is limited to half of the Fund's balance.

For additional questions regarding the Economic Recovery Bonds, contact the Department of Finance at (916) 445-4142.

Read this press release in Spanish.

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