



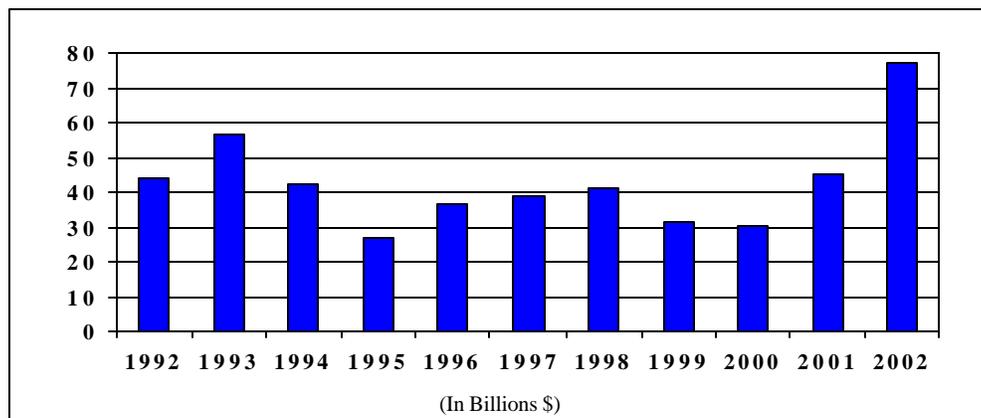
CALIFORNIA AGENCIES SET RECORD HIGH DEBT ISSUANCE

Berma Williams
CDIAC Data Collection and Analysis Unit

Calendar year 2002 was a record one for California public agencies in the municipal market. Debt issuance levels reached an all time high of \$77.3 billion, by far surpassing expectations for volume in 2002. Public debt issuers reached a pinnacle for total bond and note issuance, as deals grew larger, and insurance use grew as governments struggled with falling revenues and growing credit-quality concerns.

The \$77.3 billion in debt issuance volume is an increase of almost 71 percent over the \$45.2 billion issued in 2001. As Chart 1 reflects, this represents the highest level of debt issuance since 1993 when \$56.6 billion was issued. The \$77.3 billion includes both short and long-term debt issued by state agencies, local governments, and student loan corporations.

Chart1
California Public Debt Issuance
1992 through 2002



Calendar year 2002 also saw a record in the issuance of short-term notes, and the size of the borrowings increased. The heavy volume reflects numerous deals in the billion dollar range. Leading the way with the largest issuance was the State of California's \$23.7 billion in total issuance. The second largest issuance came from California Department of Water Resources with deals totaling \$12 billion. The California Housing Finance Agency rounded out the top three issuers selling \$2.1 billion in debt.

The State of California and its departments and agencies issued a total of \$40.9 billion, an increase of over 205 percent from 2001, local agencies issued \$35.3 billion an 11.9 percent increase from 2001, and student loan corporations issued \$938 million, a 425 percent increase from 2001.

Statewide long-term debt for both new money and refundings totaled \$50.8 billion in 2002, up 52.6 percent from the \$33 billion issued in 2001. Refundings increased 21 percent and long-term new money increased almost 29 percent.

In most cases, the increased level of refunding also represents significant savings to public agencies, allowing for the reduction in the amount of debt service associated with prior transactions. Table 1 on page 12 summarizes the 2002 statewide public debt issuance totals.

Table 1
CALIFORNIA PUBLIC DEBT ISSUANCE
FOR THE PERIOD JANUARY 1, 2002 THROUGH DECEMBER 31, 2002

I. Total State, Local and Student Loan Corporations		
A.	Total Debt Issued	<u>\$ 77,347,572,662</u> (70.8% increase from 2001)
B.	Total Long-Term Debt Issued	<u>\$ 50,853,290,662</u> (52.6% increase from 2001)
C.	Total Short-Term Debt Issued	<u>\$ 26,494,282,000</u> (121.1% increase from 2001)
II. State vs. Local Debt Issuance		
A.	Total Debt Issued by State Agencies	<u>\$ 40,996,362,110</u> (205.3% increase from 2001)
	Long-Term Debt Issued by State Agencies	<u>\$ 20,771,362,110</u> (181.7% increase from 2001)
B.	Total Debt Issued by Local Agencies	<u>\$ 35,413,928,552</u> (12.0% increase from 2001)
	Long-Term Debt Issued by Local Agencies	<u>\$ 29,143,928,552</u> (13.4% increase from 2001)
D.	CA Student Loan Corporation	<u>\$ 938,000,000</u> (425.5% increase from 2001)
III. Refunding		
A.	Total Debt Refunded	<u>\$ 14,717,717,109</u> (28.9% Total long-term debt)
B.	State Debt Refunded	<u>\$ 4,734,064,210</u> (22.8% State long-term debt)
C.	Local Debt Refunded	<u>\$ 9,847,152,899</u> (33.7% Local long-term debt)
D.	Student Loan Refunded	<u>\$ 136,500,000</u> (14.6% of SLC long-term debt)
IV. Negotiated vs. Competitive (Dollar volume)		
A.	Ratio of Debt Sold Negotiated vs. Competitive — Statewide Issuance	75.2% to 24.8%
B.	Ratio of Debt Sold Negotiated vs. Competitive — State Agency Issuance	71.7% to 28.3%
C.	Ratio of Debt Sold Negotiated vs. Competitive — Local Agency Issuance	79.2% to 20.8%
D.	Ratio of Debt Sold Negotiated vs. Competitive — Student Loan Issuance	100% to 0%
V. Enhancement		
		<u>\$ 22,835,517,518</u> (44.9% of total long-term debt)

Source CDIAC, March 14, 2003

As a percentage of all statewide debt issued in 2002, approximately \$27 billion for capital improvements comprised a notable 34.7 percent of statewide totals (see Table 2). The volume for short-term borrowing (interim finance) totaled approximately \$26 billion and comprised 34.3 percent of the statewide totals. Funding for educational purposes was approximately \$12.5 billion, representing 16.2 percent of the total issuance in 2002, while housing totaled \$5.1 billion, consisting of 6.7 percent of the total.

Table 2
STATEWIDE PURPOSE OF DEBT
2001 vs. 2002
(Millions \$)

Purpose	2001*	2002*	% Change
Interim Finance	\$ 11,983	\$ 26,494	121.1 %
Education	8,555	12,553	46.7
Capital Improvements	15,028	26,829	78.5
Commercial/Industrial	87	121	39.1
Hospital/Healthcare	1,848	1,632	-11.6
Housing	4,903	5,179	5.6
Redevelopment	1,575	2,213	40.4
Other	1,319	2,324	76.2
Total	\$ 45,299	\$ 77,347	70.8 %

*Totals may not add due to rounding.

Types of Statewide Debt Issued for 2002

Statewide the use of bonds was up 58 percent in 2002. Financing the largest municipal bond sale in our country's history, the state's Department of Water Resources issued \$11.9 billion in power bonds. With the state's recent energy crisis, the bond proceeds were used to pay off higher cost loans from the state's general fund and banks. There was also a marked increase in all the other types of debt reported over the prior year. The overall use of notes rose a significant 130 percent in 2002. Table 3 provides a comparison of the type of debt issued for 2002 versus last year's debt issuance levels by type.

Table 3
STATEWIDE TYPE OF DEBT
2001 vs. 2002
(Millions \$)

Purpose	2001*	2002*	% Change
Bonds	\$ 29,349	\$ 46,410	58.1 %
Certificates of Participation/ Leases	3,443	3,590	4.2
Commercial Paper	770	280	-63.6
Notes	11,730	27,044	130.6
Other	6	22	263.2
Total	\$ 45,299	\$ 77,347	70.7 %

*Totals may not add due to rounding.

Types of Debt Issued by State of California in 2002

The State of California and its financing agencies and authorities issued a record \$40.9 billion in debt in 2002. This total consisted of \$20.2 billion in short term debt, which included a \$7.5 billion revenue anticipation warrant, and \$12.5 billion in revenue anticipation notes.

State agencies sold \$20.7 billion in long-term bond debt, a 181.7 percent increase over the 2001 volume of \$7.3 billion. The increase in long-term bond debt issued was due to the \$12.9 billion surge in public enterprise revenue bond issuance as compared to the \$680 million issued in 2001. General obligation bond issuance was \$3.7 billion, a 16.2 percent increase from the \$3.1 billion sold in 2001.

Of the \$20.7 billion in long-term debt, slightly over \$4.7 billion, or approximately 22.8 percent, was issued to refund bonds.

Capital Improvements Tops Purposes for Debt Issued by State of California in 2002

A review of the state's long-term debt issuance indicates that financings for capital improvements and public works ranked highest among all other purposes. State capital improvement related projects issued more than \$14.1 billion in debt in 2002.

As mentioned previously, the bulk of the capital improvement debt issuance was attributed to California's record setting power deal.

The State of California's financings for educational purposes was ranked the next highest totaling \$4.4 billion, a 29.7 percent increase from the \$3.4 issued in 2001. Financings for college/university facilities totaled almost \$2.4 billion, \$654 million went towards K-12 facilities, \$446 million was dedicated to multiple education uses, and \$938 million was used for student loans, a significant increase from the \$244 million in student loans issued the previous year. Forty-eight percent of the state issuance for education total was for refunding of prior debt.

Notable drops in state activity could be found in the health care and housing areas. State agencies issued \$511 million for health care in 2001, that issuance declined to \$414 million in 2002. Financing for housing totaled almost \$2.109 billion, a slight 3 percent decrease from the \$2.175 billion issued in 2001.

Local Agency Bond Issuance Levels Up

Local agencies in California issued \$35.4 billion in public debt in 2002, a 12 percent increase from a total \$31.6 billion in 2001. Again low interest rates throughout the year provided an incentive for both new financings and refunding of prior debt.

Debt issuance at the local level was composed of \$6.2 billion of short-term finance and \$29.1 billion of long-term issuance for the year compared to 2001 when \$5.9 billion was sold for short-term purposes and \$25.6 billion for long-term debt. Refunding on the local level totaled \$9.8 billion, composed of 33.8 percent of total long-term local debt.

Overall note issuance increased slightly to almost \$6.3 billion from the \$6 billion issued in 2001.

Purposes of Local Debt Issuance in 2002

In 2002, approximately \$8 billion, or 22 percent of the total local debt, was issued for educational purposes. This was an increase of 58 percent from the \$5.1 billion sold in 2001. Educational financings were issued for the following: K-12 schools, \$6.8 billion; college, university facility, \$1.1 billion; and other multiple educational uses \$100 million.

Almost 36 percent, or \$12.6 billion of the total local debt issued was issued for capital improvements projects. This was a 6.9 percent decrease from the \$13.5 billion sold in 2001. The largest of the capital improvement financings went for the following purposes: multiple capital improvements, \$3.2 billion; power generation/transmission, \$1.8 billion; water supply and distribution, \$2.4 billion; and public buildings, \$1 billion.

See Table 4 for local agency comparison of the purposes of debt issued for 2001 and 2002.

Table 4
LOCAL AGENCY PURPOSES OF DEBT
2001 vs 2002
(Millions \$)

Purpose	2001*	2002*	% Change
Interim Finance	\$ 5,929	\$ 6,269	5.8 %
Education	5,111	8,088	58.3
Capital Improvements	13,586	12,649	-6.9
Commercial/Industrial	50	66	34.7
Hospital/Healthcare	1,336	1,218	-8.7
Housing	2,727	3,069	12.5
Redevelopment	1,575	2,213	40.5
Other	1,311	1,840	40.4
Total	\$31,626	\$35,413	12.6 %

*Totals may not add due to rounding.

Bonds Compose 17 Percent of Local Debt

Dollar volume of bonds issued at the local level in 2002 was \$25.5 billion, up 17.4 percent from the \$21.7 billion sold in 2001. General obligation bond financings reached \$7 billion in 2002, an 84 percent increase over the \$3.8 billion issued in 2001. Contrary to the state’s issuance, public enterprise bond financing on the local level was \$5.7 billion, 16 percent lower than the \$6.8 billion issued in 2001. Fifty nine percent of public enterprise was used to refund prior debt. Local tax allocation revenue issuance of \$1.9 billion increased 41 percent in 2002, and revenue (Marks-Roos pool) bond issuance was down 18 percent from 2001 issuance.

Limited tax obligation bond issues, which consists primarily of Mello-Roos Community Facilities District (CFD) financings totaled \$1.2 billion, an increase of 36 percent from the \$932 million issued in 2001.

As Table 5 reflects, 10 California counties issued more than \$1 billion in debt for 2002. There were only two counties that did not issue debt in 2002, Alpine and Modoc.

Table 5
CALIFORNIA COUNTIES THAT
ISSUED MORE THAN \$1 BILLION IN 2002

County Name	Total Debt Issued
Los Angeles	\$8.4 billion
San Diego	\$3.1 billion
Santa Clara	\$2.5 billion
Alameda	\$1.9 billion
Sacramento	\$1.7 billion
Orange	\$1.6 billion
Riverside	\$1.6 billion
San Francisco	\$1.0 billion
Contra Costa County	\$1.0 billion
San Bernardino	\$1.0 billion

Taxable Financings Primarily Used for “Other” Purposes

Statewide taxable financings totaled \$4.7 billion and were 6.2 percent of the statewide volume. This total represents an 82.7 percent increase from the \$2.6 billion issued in 2001. Eighteen taxable issues (27.4%), totaling \$1.3 billion was used for “other” purposes.

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